Revised: October 8, 2009

Hearings held by the
Assembly Committee on
Jobs, Economic Development, and the Economy

California Enterprise Zone:
A Review and Analysis

V. Manuel Pérez, Chair
Assembly Committee on Jobs,
Economic Development, and the Economy

Report prepared by: Assembly Jobs, Economic Development, and the Economy Committee

Jobs, Economic Development and the Economy

V. Manuel Pérez, Chair
Dan Logue, Vice Chair
Jim Beall
Bill Berryhill
Marty Block
Alyson Huber
Mary Salas

Committee Staff:

Toni Symonds, Chief Consultant
Mercedes Flores, Consultant

Assembly Republican Caucus, Office of Policy:

Julia King, Senior Consultant

Table of Contents

Appendices

California Enterprise Zone Program: A Review and Analysis

The Assembly Committee on Jobs, Economic Development, and the Economy (JEDE) is in the middle of a comprehensive examination of the California Enterprise Zone Program and the other state programs related to geographically-targeted economic development areas (G-TEDAs).

It is the Committee's objective in undertaking this review to provide Members of the Legislature and the public with a more comprehensive understanding of where the state's resources are being expended and the value these types of expenditures have for local communities. Given the current state of the economy, it is imperative that the Legislature ensure that economic and workforce development programs are best used to meet the immediate and longer term economic recovery needs of the state.

The Committee currently plans to hold three public hearings between August 18 and October 17, 2009. Following these hearings, small stakeholder meetings are planned for the latter part of October and possibly into early November 2009. A reform proposal is expected to be sent to the Office of the California State Legislative Counsel in early November 2009. Copies of draft amendments will be available through the JEDE Office in early December 2009. Legislation arising from these hearings will, most likely, be heard in the first two weeks of January 2010.

Throughout the hearing and consultation process, this white paper will be revised to incorporate information presented to the Committee. *A summary of the first hearing is available in Appendix H.* A copy of the white paper is available through the JEDE Office or on the JEDE website at www.assembly.ca.gov .

California Enterprise Zone Program Defined

The current Enterprise Zone Program is the result of merging two related, but still separate, public policy objectives: business development and reinvestment in declining inner cities. These dual purposes have resulted in the inclusion of a variety of elements into a single program. Given the changing nature of the economy, it is important that the individual business incentives and program guidelines be periodically reviewed, both separately and collectively, to ensure that the purpose and objectives of the overall program are being achieved.

The premise of the program is layed out in legislative intent[1] that states that "the health, safety, and welfare of the people of California is dependent upon the development, stability, and expansion of private business, industry, and commerce, and there are certain areas within the state that are economically depressed due to a lack of investment by the private sector." Statue then proceeds to state that the purpose of the California Enterprise Zone Program is to "stimulate business and industrial growth in the depressed areas of the state by relaxing regulatory controls that impede private investment."

[1] Section 7071 of the Government Code

Statute further provides that it is in the state's best economic interest to have an effective enterprise zone program in order to help attract, retain and expand business activity, as well as create increased job opportunities.

During the course of the hearings and in the content of this white paper, Members will be offered information and recommendations to assist them is assessing whether the current program's purpose, designation process, and incentives accurately reflect the needs of California communities, workers and businesses.

Possible Issues for Consideration

In undertaking an assessment of such a broad set of public policies it may be useful to divide the program assessment into five programmatic areas: program purpose, program structure, incentives, oversight, and evaluation. A preliminary list of issues has been developed and is provided below.

Program Purpose

- Clarity of program's purpose;
- Consistency of program's purpose with implementation tools;
- Appropriateness of the program's purpose to the state's nine economic regions; and
- Appropriateness of program's purpose to the current California economy

Program Structure

- Role and capacity of the state and local entities to successfully administer the program;
- Transparency and appropriateness of the designation process;
- Strategic selection of incentives, services and program activities; and
- Appropriate term of the program and individual program elements.

Incentives

- Degree to which incentives address emerging industries and innovation;
- Ability of state and local community to access and successfully apply incentives to attract businesses;
- Degree to which the program is incorporated into a localities' overall economic development strategy; and
- Sufficiency of the program in linking workers, training, and local jobs.

Oversight

- Overlaps and/or gaps in state agency responsibilities;
- Adequacy and frequency of audits of G-TEDA and beneficiaries of incentives;
- Adequacy of longer term funding to cover oversight activities;
- Potential conflicts of interest;
- Sufficiency of information sharing by the three state agencies and G-TEDA administrators; and

- Consistency of oversight practices and methods with the purpose of the intended purpose of the program.

Evaluation

- Sufficiency of state and local agency performance;
- Consistency of evaluation criteria with the intended purpose of the program;
- Clarity and cost-effectiveness of performance metrics to assess individual community success, as well as the success of each incentive and the overall program;
- Current year and future year costs, including carryover liabilities.

Organization of this Paper

This paper is organized into three sections. The first section provides background on the history and development of the G-TEDA programs. The second section includes more specific information on the G-TEDA programs, and the third section begins to outline the challenges in determining California's return on investment from these programs.

Summaries of key information have also been included in the appendices for easy reference including:

- Appendix A includes a map of California's designated enterprise zones;
- Appendix B provides a chart with basic background information on the programs;
- Appendix C includes a summary of key legislation;
- Appendix D offers a compilation of significant reports;
- Appendix E includes a description of all geographically-targeted economic development areas;
- Appendix F and G have charts of the different incentives that are offered by each state;
- Appendix H and I include the agenda and summary from the August 18, 2009 hearing; and
- Appendix J provides a chart detailing possible reform measures previously presented by stakeholders and other members of the public.

Section I - Background on Enterprise Zone Programs

This section provides background on the G-TEDA programs, a short history of where geographically targeting economic development incentives originated, and a survey of how other states have implemented G-TEDA type programs.

California's G-TEDA Programs

Existing law authorizes the California Department of Housing and Community Development (HCD) to designate up to 42 enterprise zones based on a statutory list of criteria related to poverty and economic dislocation. In addition to the Enterprise Zone Program, existing law also authorizes the establishment of two Manufacturing Enhancement Areas (MEA), one Targeted Tax Area (TTA), and eight Local Agency Military Base Recovery Areas (LAMBRA). Collectively, these business incentive areas are referred to as G-TEDAs.

The G-TEDA programs are based on the economic principle that targeting significant incentives to lower income communities allows these communities to more effectively compete for new businesses and retain existing businesses, which results in increased tax revenues, less reliance on social services, and lower public safety costs. Residents and businesses also directly benefit from these more sustainable economic conditions through improved neighborhoods, business expansion, and job creation.

Under the G-TEDA programs, businesses and other entities located within the area are eligible for a variety of local and state incentives. Local government incentives can include subsidizing the cost of development, funding of related infrastructure improvements, providing job training to prospective employees, or establishing streamlined processes for obtaining permits. The state also offers a number of incentives, including tax credits, special tax provisions, priority notification in the sale of state surplus lands, access to certain Brownfield clean-up programs, and preferential treatment for state contracts.

Appendix A includes a map of the G-TEDAs and Appendix B has a chart with basic information about the individual G-TEDAs, such as the year they were designated and the Assembly and Senate Districts in which they are located.

History of Enterprise Zones

The concept of using "enterprise zones" as a means for addressing declining industrial areas is generally attributed to the 1970's work of Professor Peter Hall, an urban planning professor in Great Britain. Enterprise zones were designed to replicate the conditions that supported the rapid economic growth he had observed in the "free ports" in Asia, such as Hong Kong, Singapore and Taiwan.

The first true enterprise zone was established in Great Britain in 1981 during the Margaret Thatcher Government, eventually sparking similar initiatives in other countries, including the United States. Ronald Reagan is considered the first Presidential proponent for the use of enterprise zones and U.S. Congressmen Jack Kemp (R-NY) and Robert Garcia (D-South Bronx) introduced the first federal enterprise zone legislation[2] in 1981.

[2] Senate Bill 1310 (Kemp-Garcia), 1981

Despite strong federal-level interest, enterprise zones first took hold at the state-level with the first program being established in 1983. These state programs each included differing selections of tax and program incentives reflective of the unique economic policies of the state. While most of the initial programs focused on attracting businesses, it has become common for enterprise zones to also include employment-related incentives, childcare, and other social programs.

The first Federal program was established in 1993 when the Federal Empowerment Zone Program was created during the Clinton Administration. The federal program built upon many of the elements developed by the state programs. Key elements in the federal program are a demonstration of readiness by a community to undertake a comprehensive economic and community development strategy, the measurement of progress, and the leveraging of other Federal resources to assist targeted communities.

Historically, enterprise zones have remained popular because of their dual goals of increasing employment opportunities for low-income persons in blighted communities and creating opportunities for businesses to reduce their tax liabilities.

Other States with Enterprise Zone Programs

At least 37 other states have implemented enterprise zone type programs. Their administration and collection of incentives, however, vary widely. Some states designate geographic areas based on a competitive process, other states designate an indeterminate number of zones based upon poverty and other distress indicators. Some states limit the type of businesses which are eligible for incentives, others scale the incentives based on the amount of job creation or private sector investment contributed by the business. Some programs sunset, while others, similar to California have no sunset.

The purposes for which the enterprise zone programs were created also varies. Some programs are about attracting private capital, while others emphasize poverty alleviation. Below are descriptions of five state enterprise zone programs.

- Arizona: Local governments apply annually for enterprise zone designation, up to six new zones designated on a competitive basis each year. Existing zones that reapply and meet certain threshold criteria are considered renewals. Arizona currently has 26 enterprise zones. The primary objective of the Arizona Enterprise Zone Program is to improve the economic conditions within areas of the state with high poverty or unemployment rates. The program offers two types of benefits: income tax credit for non-retail business and insurers that demonstrate a net increase in employment and a property tax reduction for manufacturers and commercial printing businesses.

  An eligible employer may receive up to $3,000 in tax credits over three years based on a prescribed calculation for net new employees, annually capped at a total of 200 first-year tax credits. Eligible employers must pay wages above a prescribed minimum and cover at least 50 percent of employee health care costs. Tax credits are required to be claimed within six months of the close of the tax year in which they are earned or the tax return is filed, whichever comes first. A five-year reduction in property taxes is available to manufacturers and commercial printing businesses located in zones that are either minority-owned, woman-owned, independently owned, or a small business. The Arizona Department of Commerce estimates this incentive results in a 40 to 60 percent savings in a business's property tax bill. The Arizona Enterprise Zone Program is scheduled to sunset on June 30, 2011

- Florida: Florida has 56 designated enterprise zones, including two federal Empowerment Zones, three federal Enterprise Communities, 28 rural enterprise zones and 28 urban enterprise zones. Enterprise zone designations are competitively awarded for a term of eight years. Local government applicants are required to submit an economic development strategy. At the local level an enterprise zone is governed by an Enterprise Zone Development Agency, which oversees the implementation of the strategic plan. The overall Florida Enterprise Zone Program sunsets in 2015.

  Florida provides a 30 percent job tax credit for rural zones and a 20 percent credit for urban zones that a business can use to offset the amount of monthly taxes due on wages to new employees. Alternatively, a business can claim a job credit of 30-45 percent (rural) or 20-30 percent (urban) of wages paid to new employees on their corporate taxes. Florida also gives sales tax refunds on equipment and building materials, property tax exemptions, and a sales tax exemption on electricity purchases by businesses located in an enterprise zone.

- Oregon: The purpose of the Oregon Enterprise Zone Program is to help attract private business investment to certain areas of the state and to help resident businesses in those areas reinvest and grow. Awarded on a competitive basis, there are currently 59 enterprise zones: 48 rural and 11 urban.

  Incentives include a three-to-five year tax exemption from new capital investments in a zone for such firms as manufacturers, processors, shippers and other operations that serve businesses and for some types of headquarters and call centers. In addition, certain zones have special status as e-commerce zones, where targeted businesses in these zones are eligible to receive an income tax credit equal to 25 percent of that tax year's investment cost in capital assets for operations related to electronic commerce. There is also an enterprise zone-type exemption from property taxes on wind farms, biofuel production and other eligible projects in a designated county.

- Texas: The Texas Enterprise Zone Program is marketed as a tool for communities that wish to partner with the state in offering a comprehensive package of local and state tax and regulatory benefits to new or expanding businesses in economically distressed areas of the state. Enterprise zones in Texas are designated on a non-competitive basis to areas that meet minimum poverty criteria. Zones can be designated for any census block group with a poverty rate of 20 percent or more. While each enterprise zone is formally designated for a seven-year term, the enterprise zone is automatically continued if the poverty rate for the census block group remains at or above 20 percent.

  Zone designation is not sufficient to receive enterprise benefits. A business must apply for and receive a nomination by the local jurisdiction for an Enterprise Project designation. The nomination is then forwarded to the State Office of Economic Development which designates Enterprise Projects. Up to a maximum of 65 projects are competitively awarded over a two-year period based on capital investment and job creation.

Once a business receives an Enterprise Project designation, the business is eligible to receive local and state benefits for a five-year period. Designated enterprise projects are eligible to apply for state sales and use tax refund of up to $1.25 million on qualified expenditures on equipment, building materials, and construction labor. The level and amount of refund is related to the level of capital investment and jobs created at the site. No benefits are allowed for moving existing jobs from one municipality to another.

- Virginia: Up to 50 enterprise zones can be designated on a competitive basis. Each zone is designated for a 10-year term, with two five-year extensions available.

  Two grant-based incentives are available to businesses located in an enterprise zone: the Job Creation Grant and the Real Property Investment Grant. The Job Creation Grant offers up to $800 per year, per employee, based on the employee's wage rate. Retail, personal service and food and beverage positions are excluded from the Job Creation Grant. The Real Property Investment Grant provides for up to $200,000 per building over a five-year period, based on the value of the property.

Appendix F includes a chart of all 39 states that offer a G-TEDA program. In Appendix G there is a chart that provides more detailed information on how different states have structured their hiring credit programs.

The Future of Geographically-Based Programs

G-TEDA's have been used to address blighted and economically declining areas for nearly three decades. The fundamental concepts have remained the same: provide tax incentives and regulatory relief to firms who are willing relocate to areas facing certain economic challenges. In turn, this new investment will result in business growth, a more stable economy and job opportunities.

There is, however, great variances in how the different state and federal programs have been undertaken. Given the significant economic changes in the global economy, there may be changes that should be made in the California G-TEDA programs.

Section II – The California Enterprise Zone Program

Building upon the general concepts developed in the first section, this section provides more specific information regarding the California Enterprise Zone Program, including information on the its legislative history, description of the current zones, administration and oversight requirements, and details of the competitive application process.

Legislative Context and History

The origins of California's enterprise zones came through enactment of two separate programs in 1984 - the Enterprise Zone Act[3] and the Employment and Economic Incentive Act[4].

While seemingly similar, the Acts had different objectives, but were contingently acted prior to being sent to the Governor for signature. The Enterprise Zone Act provided tax credits for businesses, while the Employment and Economic Incentive Act provided benefits to businesses that hired a certain number of residents living in distressed areas.

The Enterprise Zone Act allowed for the creation of 10 enterprise zones. The Economic Incentive Act allowed for the designation of nine geographic program areas.[5] Once designated, there was no geographic overlap of the two types of designated areas.

Since the inception of these programs, the California Legislature has regularly heard bills to increase the number of targeted areas, grant zone designation time extensions, expand the geographic size, and alter the tax benefits for zone businesses.

Perhaps one of the most significant changes to these geographically-targeted programs occurred in 1996. SB 2023 (Costa)[6] and AB 296 (Knight)[7] merged the two Acts and established the current Enterprise and Employment Zone Act. For the first time, the enterprise zone program emphasized both tax incentives to businesses and the employment of lower income individuals.

SB 2023 also authorized an enterprise zone to expand its boundaries up to 15 percent of the originally-designated size of the zone. In 1998, AB 2798 (Machado)[8] authorized enterprise zones measuring 13 square miles or less, at the time of their designation, to expand up to 20 percent of their original size. Provisions in both measures, though passed in different years, required zone boundaries to remain contiguous. Concerns were later raised that requiring contiguous boundaries had resulted in illogically shaped zones and the inclusion of areas for the sole purpose of connecting appropriate business development areas.

---

[3] AB 40 (Nolan), Chapter 45, Statutes of 1984
[4] AB 514 (Waters), Chapter 44, Statues of 1984
[5] Government Code Section 7070 established the program. Revenue and Taxation Code Sections 17053.74 and 23622.7 govern the corporation and personal income tax details.
[6] SB 2023 (Costa), Chapter 955, Statutes of 1996
[7] AB 296 (Knight) Chapter 953, Statutes of 1996
[8] AB 2798 (Machado), Chapter 323, Statues of 1998

In 2006, a comprehensive review of the 20-year old G-TEDA programs was completed by JEDE and the Assembly Committee on Revenue and Taxation, and a second set of significant reforms were passed. During the course of four months of hearings, the Committees reviewed current and best practices related to designation, management and monitoring, and use of business incentives available through the G-TEDA programs. Among other findings, the review determined that the programs lacked sufficient internal controls and oversight for programs so central to the state's economic and workforce development activities. Key reforms in the 2006 legislation[9] included:

- Requiring enterprise zone applications be ranked based on their economic development strategy and implementation plan, including the extent to which the strategy: sets reasonable and measurable benchmarks, goals, and objectives; identifies local resources, incentives, and programs; provides for the attraction of private investment; includes regional and community-based partnerships; and addresses hiring and retention of unemployed or underemployed residents or low-income individuals.

- Requiring G-TEDAs to biennially report to HCD on their progress in meeting the goals and objectives identified in their implementing memorandum of understanding (MOU.) G-TEDAs designated prior to January 1, 2007, are required to update their goals and objectives by April 15, 2008, and meet the annual reporting requirements by October 1, 2009.

- Adding new audit elements that require the review of a G-TEDA's administrative support and whether financial commitments made in the G-TEDA application and MOU have been maintained.

Legislation was also passed in 2006 to provide greater flexibility for enterprise zones undertaking their initial environmental review of the program, as well as authorizing a fee on each voucher to help cover the administrative costs of the program to HCD.

A summary of key legislation affecting the California Enterprise Zone Program since its inception can be found in *Appendix C – Legislative History of the California Enterprise Zone Program.*

Current California Enterprise Zones

Enterprise zones are located in portions of more than 54 Assembly Districts and more than 35 Senate Districts. Enterprise zones range in size from one square mile to 70 square miles and in geographic locations ranging from Eureka and the Shasta Valley near the Oregon border to San Diego and Calexico along the Mexican border. *Appendix A includes a map of the G-TEDAs and Appendix B has a chart with basic information about the individual G-TEDAs, such as the year they expire and the Assembly and Senate Districts in which they are located.*

Businesses and other entities located within an enterprise zone are eligible for a variety of benefits from the state, including tax credits, special tax provisions, priority notification in the sale of state surplus lands, access to certain brownfield clean-up programs, and

[9] AB 1550 (Arambula and Karnette), Chapter 718, Statutes of 2006

preferential treatment for state contracts. Below is a chart comparing the state tax incentives offered to businesses located in the different G-TEDAs.

Comparison of State Tax Benefits by Targeted Area					
	Hiring Credit	Longer NOL[10] Carry-Forward Period	Sales and Use Tax Credit	Accelerated Depreciation	Lender Interest Deduction
Enterprise Zone	X	X	X	X	X
Manufacturing Enhancement Zone	X				
Targeted Tax Area	X	X	X	X	
Local Agency Military Base Recovery Area	X	X	X	X	
Source: Legislative Analyst's Office					

By far, the largest G-TEDA business incentive is the income tax credit given for hiring certain targeted employment populations. According to the Franchise Tax Board (FTB), in 2006, businesses located within a G-TEDA claimed 4,851 credits worth over $230 million in hiring and sales and use tax credits. Of the 4,851 credits claimed by all taxpayers located in a G-TEDA, 4,440 were claimed by businesses located in an enterprise zone. Below is a chart summarizing total G-TEDA credits claimed in the 2004-2007 tax years.

Comparison of Total G-TEDA Credits Claimed in 2004 to 2007 Tax Years				
	Number of Credits Claimed on Corporate Taxes	Value of Credits Claimed on Bank and Corporate Taxes (thousands)	Number of Credits Claimed on Personal Income Taxes	Value of Credits Claimed on Personal Income (thousands)
2004 Total G-TEDA Credits	3,256	$218,726	5,054	$130,401
2005 Total G-TEDA Credits	4,325	$216,416	8,270	$146, 204
2006 Total G-TEDA Credits	4,851	$230,751	9,973	$154,926
2007 Total G-TEDA Credits	5,631	$251,591	15,461	$179,343
Source: Franchise Tax Board				

Below are charts that compare the use of individual credits under each of the G-TEDA programs for the 2006 and 2007 tax years.

Comparison of Corporate G-TEDA Credits Claimed in 2006				
	Hiring Credit (millions)	Sales and Use Tax Credit (millions)	Business Expense Deduction (millions)	
			Amount of deduction	Estimated Tax Impact
Total Enterprise Zone	$ 177.4	$ 39.7	$ 4.5	$ 0.2

[10] NOL= Net Operating Loss

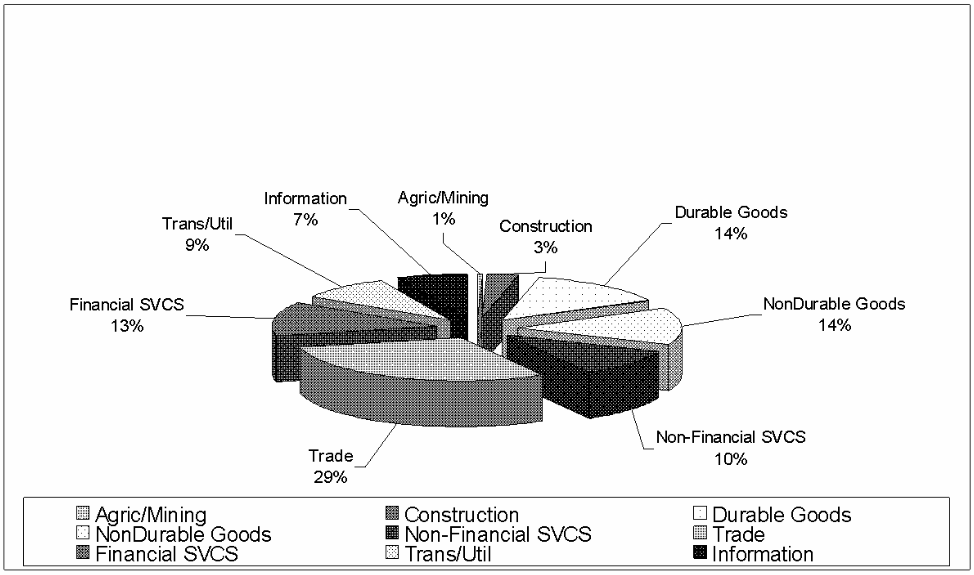
Credits				
Total LAMBRA Credits	$0.7	$ 0.1	/a	/a
Total MEA Credits	/a	---	---	---
Total TTA Credits	$ 4.4	$0.2	/a	/a
Source: Estimated by Franchise Tax Board /a = less than $50,000 --- not applicable				

Comparison of Corporate G-TEDA Credits Claimed in 2007				
	Hiring Credit (millions)	Sales and Use Tax Credit (millions)	Business Expense Deduction (millions)	
			Amount of deduction	Estimated Tax Impact
Total Enterprise Zone Credits	$ 188.8	$ 47.9	$ 5.1	$ 0.2
Total LAMBRA Credits	$ 1.3	$ 0.4	$ 0.1	/a
Total MEA Credits	/a	---	---	---
Total TTA Credits	$ 4.9	$ 1.0	$ 0.1	/a
Source: Estimated by Franchise Tax Board /a = less than $50,000 --- not applicable				

According to data provided by FTB, approximately 15% of G-TEDA tax credits are filed by small businesses – businesses with gross receipts under $10 million. Businesses with gross receipts over $1 billion claimed approximately 57% of the total value of the credits in 2006.

Of the state's nine major industry sectors, the businesses related to the trade industry claimed the most significant portion of all tax credits, with 29 percent of the total $217 million claimed in 2006. Figure 5 below shows the distribution of tax credits claimed, by industry sector.

Figure 5
Tax Credits by Industry in 2006
(Percentage)



Source: FTB.

A description of all of the state's G-TEDA programs can be found in *Appendix E – California's Geographically Targeted Economic Development Programs*.

State Administration of the G-TEDA Programs

Administration of the California Enterprise Zone Program has passed from agency to agency during its 25-year history. Initially established within the Department of Commerce in 1984, today, after the elimination of the Technology, Trade and Commerce Agency (TTCA) in 2003,[11] the designation and auditing responsibilities for the program reside with HCD.

The FTB also assists in the administration and oversight of the tax incentive portions of the G-TEDA programs. HCD, however, generally serves as the facilitator for trainings and discussions between FTB and G-TEDAs. As the use of G-TEDA related tax incentives has grown in the past decade, FTB has increased its auditing and monitoring of the programs. According to FTB, tax credits related to enterprise zones represent a significant number of credits filed with the FTB each year, resulting in FTB having developed an "internal procedures manual" for auditing tax credits within targeted economic development areas, including enterprise zones.

The Employment Development Department (EDD) is also required to play a role in implementing the state G-TEDA programs. Among other responsibilities, EDD administers the state responsibilities under the Workforce Investment Act. Unemployed workers who receive training with the Workforce Investment Act moneys are one of the target populations for new hires under the G-TEDA employer hiring credit.

In the past several years, communication between HCD and FTB has greatly improved and G-TEDAs have benefited from coordinated trainings and consistent program guidance.

[11] SB 305 (Ducheny), Chapter, Statutes of 2003

EDD has, however, taken no known actions to help connect eligible workers with businesses within a G-TEDA. Members may wish to follow-up on the consistent lack of action by EDD relative to the G-TEDA programs.

In the furtherance of its general administrative duties and to implement recently enacted legislation,[12] HCD embarked on the development and approval of a comprehensive set of regulations. Previously, TTCA issued a variety of emergency regulations that were never finalized. This has left some enterprise zones confused regarding which regulations apply and which are no longer in effect.

HCD's first set of draft regulations, issued in October 2005, addressed the following topics:

- Designation of a zone manager and staff
- Standards for local hiring credit voucher programs
- Actual content of the hiring credit voucher
- Specification of required documentation for the issuance of a hiring credit voucher
- Identification of an alternative method for establishing eligibility for a hiring credit, if specified documentation is not available
- Appeals to HCD

In the future, HCD will be developing additional regulations, guidance manuals and administrative notices relating to the performance audit requirements and the designation process.

Receiving State Enterprise Zone Designation

Designation of a new enterprise zone is designed to be an extremely competitive process, whereby communities compete for the ability to administer a comprehensive state and local economic and workforce development program that helps to attract private sector development to low-income and economically depressed areas of the state.

Cities and counties, either separately or jointly, may apply to HCD to have a geographic area designated as an enterprise zone. Designations are made through a competitive process initiated by HCD.

In general, areas are eligible for inclusion within enterprise zones based on three categories. The first category of eligibility is reserved for those areas included in the pre-1997 enterprise zone program or a targeted economic development area. The second category of eligibility is for areas that HCD determines meet at least one of the following criteria:

- The area meets the criteria for eligibility under the federal Urban Development Action Grant Criteria
- The area meets the definition of "economic stress" under federal Urban Development Action Grant
- The area has experienced "plant closures" within the past two years affecting more than 100 employees

[12] SB 305 (Ducheny), Chapter 593, Statutes of 2003 and SB 1097 (Senate Committee on Budget and Fiscal Review), Chapter 225, Statutes of 2004

- The area has a history of gang-related activity

The third category for eligibility is for areas that meet <u>at least two</u> of the following criteria:

- The census tracts have an unemployment rate of at least 3 percent above the statewide average
- The county in which the area is located has at least 70 percent of children enrolled in public school participating in a free lunch program
- The median income for a family of four within the census tract does not exceed 80 percent of the statewide median income

HCD is directed to select enterprise zones based on a preliminary application that proposes the most appropriate economic development strategy and implementation plan for the area. The strategy is expected to include state and local programs and other incentives to create jobs, attract private sector investment and improve the economic conditions within the proposed zone. Mandatory elements of the strategy include an assessment of community needs, clear goals and measurable objectives, and, proposed implementation activities.

Applications are rated and ranked based on key economic and community development criteria, including the availability of local resources to complete the strategy, the likelihood that the strategy can attract private capital, the extent that key local and regional partnerships are identified, and the reasonableness of the strategy's measurable objectives. Applications also have to demonstrate that local funding is available to manage, oversee, and deliver the program proposed in the strategy.

As noted above, HCD considers local incentives a key component in scoring enterprise zone applications. The type and number of incentives vary by locality. Typical local incentives include:

- Marketing the enterprise zone
- Low-interest loans to businesses that locate in the zones
- Expedited permitting and regulatory processes
- Funding for infrastructure
- Job training for employees

Priority points are awarded to applications from communities with significantly high poverty levels, unemployment rates and/or suffer from long term economic dislocation conditions, such as plant closures, natural disasters, or military base closures.

<u>**State Incentives Offered in G-TEDAs**</u>

As discussed earlier, businesses located within an enterprise zone are eligible for a variety of state incentives. According to the California Business Investment Service, the state entity responsible for meeting with businesses who are interested in located in California, the G-TEDA incentives are the state's primary marketing tool.

Due to the current fiscal condition of the state, the NOL has been suspended for two years and the value of the tax credits has been reduced by 50%. Small businesses are exempted from both provisions.

State Tax Incentives

Current state tax incentives include:

- Tax Credits for Qualified Hires: The largest tax incentive in the enterprise zone program is the hiring credit. The hiring credit is offered to businesses that hire qualified individuals to work within the boundaries of the zone. There are a total of 14 categories of qualified employees.

  A qualified employee must retain employment for a minimum of 270 days in order for the employer to be eligible to claim the hiring credit. The value of the incentive for the hiring credit totals 50 percent of an employee's wages in the first year, 40 percent in the second year, and declines by 10 percent increments through the fifth year. The credit is depleted in the sixth year, and no credit May be claimed.

  The maximum value per qualified employee hired is approximately $37,444 over the five-year term. Although workers can be paid more, the maximum value upon which an employer can claim a credit is 150 percent of minimum wage. The credit is available to reduce net tax on income from enterprise zone activities until exhausted.

- Income Tax Credit for Sales Tax Paid: A corporation operating in an enterprise zone is eligible to receive an income tax credit equal to the sales or use tax paid up to the first $1 million of machinery or parts purchased for use within the enterprise zone.

  The credit is available to reduce net tax on income from enterprise zone activities until exhausted.

- Enterprise Zone Employee Tax Credit: Qualified employees from an enterprise zone business may claim a tax credit equal to five-percent of qualified wages received from the enterprise zone business in the taxable year, up to a maximum amount. The limitation, based upon 150 percent of wages subject to federal unemployment insurance, currently is $525. The qualified employee may not be employed by the public sector and must perform 90 percent of his or her service for the enterprise zone business, with at least 50 percent of the services performed within the enterprise zone.

- Net Operating Loss: A business operating in an enterprise zone may carry over 100 percent of its net operating loss for up to 15 years.

- Accelerated Write-Off of Certain Machinery and Equipment Costs: A business may expense up to 40 percent of the costs of certain property (personal property, equipment, and furnishings) acquired for use exclusively in an enterprise zone business.

- Net Interest Deduction: A financial lender may claim a deduction of net interest received from loans made to businesses located in an enterprise zone.

Other Business Incentives

The state also offers businesses operating in an enterprise zone other incentives including the lease of public lands at below market rates, special assistance through the Office of Small Business, priority ranking for loans to purchase alternative energy systems, and a five-percent preference for state contracts in excess of $100,000.

Both EDD, to the extent permitted by federal law, and the California Department of Education (CDE) are also required to provide priority training to unemployed individuals who reside in a targeted employment area or an enterprise zone. This training is particularly critical to a G-TEDAs ability to meet its workforce development priorities and could serve as a primary linkage between unemployed workers and jobs located in a G-TEDA.

Unfortunately, no priority training has taken place as EDD believes that the enterprise zone statute[13] does not apply to the 15 percent of Workforce Investment Act moneys that are retained by the state. Further, the California Workforce Investment Board has taken no action to include the G-TEDA programs within its strategic plan for the use of federal Workforce Investment Act moneys.

The CDE, however, has implemented a training program priority for unemployed individuals who reside in enterprise zones. According to the CDE, there is at least one adult education program in each of California's designated enterprise zones, some of which implement targeted enterprise zone programs.

Private Sector Capitol

A core mission of the G-TEDA programs is to create the appropriate economic and regulatory climate to attract private capital. Public capital is designed to be used as seed corn or as a means for removing barriers for attracting private capital.

While the G-TEDA programs have a number of important state and local incentives, there is no clear connection between private development and public investment. Public investments are being made more or less on an act of faith that providing the incentive will support the correct kind of private investment.

In the committee's evaluation of the G-TEDA programs, it may be useful to look more closely at the current state of private investment, especially in the area of economically justified investments.

Performance Review of G-TEDA Programs

Existing law requires evaluation of an enterprise zone's progress toward meeting the goals and objectives identified in the initial application and the implementing MOU between HCD and the G-TEDAs. HCD is required to undertake a programmatic review of every G-TEDA at least once every five years.

[13] Government Code Section 7081

Statute defines the scoring process and elements HCD may consider when determining whether a zone should receive a score of "superior", "pass" or "fail" on the audit. Areas reviewed in the audit include the G-TEDA's use of a marketing plan, local incentives, financing programs, job development, and the overall program management. Further, HCD is required to evaluate the G-TEDA's vouchering plan, staffing levels, operating budget, and elements of the designation application which may be unique to the G-TEDA.

During 2005 and 2006, HCD conducted the first on-site audits of the G-TEDA programs, visiting 23 of the 42 enterprise zones. Previously, the state administer of the program, TTCA, had limited its reviews to mail surveys of the enterprise zones. HCD's onsite audits uncovered some inadequacies in the local administration of the program, but most significantly, the audits illustrated that the underlying MOUs between HCD and the community had insufficient detail as to allow HCD to properly audit the local program.

The inability of the state to quantify whether economic progress was being made under the G-TEDA programs was also a major finding from the 2005/2006 Assembly oversight hearings. Statutory changes were made to the designation, audit and de-designation process to address this problem. Among other changes, the reform legislation required all new G-TEDAs[14] to have the MOUs include specific performance measures that HCD could use to assess program implementation progress. Existing zones were given one year to update their MOUs with HCD to meet this criteria.

The new audit mandates have been in place for a little over one year. In general, HCD has found that G-TEDAs still need additional guidance on measuring their progress and effectiveness. For the most part, HCD states that the G-TEDAs documented their marketing activities sufficiently, but the G-TEDAs were often unable to assess business responsiveness or the effectiveness of program activities.

The following is an example provided by HCD: "One zone was able to show that it had performed its marketing activities using several media such as television and radio. Though it traced the responses to these efforts, the zone could not demonstrate that these activities had resulted in the creation or retention of jobs." HCD is committed to continue to work with the G-TEDAs to develop reliable systems for collecting the data required to make the accurate determinations on their progress.

The Dedesignation Process

The G-TEDA programs are designed to be a pro-active joint effort by local communities and the state to address systemic economic challenges in certain areas of the state. Statute provides that communities that fail to keep their G-TEDA commitments should be dedesignated in order to provide an opportunity for another community to utilize the program. The three ways in which a G-TEDA can be dedesignated are discussed below.

Poor Performance on Audit

Enterprise zones which receive a "fail" on their audit evaluations are required by statute to enter into a written agreement with HCD regarding what corrective actions they must

[14] AB 1550 (Arambula and Karnette), Chapter 718, Statutes of 2006

undertake to mitigate the deficiencies identified in the audit. Enterprise zones which fail to reach a corrective action agreement with HCD within 60 days are dedesignated as an enterprise zone effective January 1 of the following year.

Once the enterprise zone has entered into the written agreement of corrective actions, it has six months to meet those commitments. If HCD determines, at the end of the six-month term of the agreement, that the zone has not met or implemented at least 75 percent of conditions set forth in the agreement, dedesignation of the zone will become effective on the first day of the month following the date on which the written agreement expires. Enterprise zones are allowed to appeal these determinations to HCD.

Lack of Local Administrative Support

In addition to the dedesignation of a zone occurring due to a poor audit score or the G-TEDA's failure to correct the deficiencies, existing law also authorizes the dedesignation of a zone that fails to adequately support the administration of the local G-TEDA program.

G-TEDAs which fail to provide adequate funding support in three of the five previous years are also required to receive a failing score on their audit and become at-risk for dedesignation. Adequate funding is defined as less than 75 percent of the amount committed to in the MOU between jurisdiction and HCD.

Failure to Upgrade MOU

Existing law also requires G-TEDAs designated prior to January 1, 2007 to update the benchmarks, goals, objectives, and funding levels in their MOU with HCD in order to facilitate HCD's audit of their program and the successful implementation of their local economic development strategy.

G-TEDAs that failed to update their goals and objectives by October 15, 2008, were to be dedesignated. HCD did not dedesignate any G-TEDA's under this criterion.

Removal of Un-needed Land

In addition to de-designation of a zone due to poor performance of a G-TEDA, existing law also authorizes a local government to exclude land from an existing zone through the adoption of a resolution requesting dedesignation.

In instances where an area is dedesignated or excluded, businesses located within those areas that had previously availed itself of a state tax incentive may continue to access those incentives for the duration of the original term of the G-TEDA designation. Businesses which had not previously utilized these incentives are prohibited from accessing the incentives after de-designation or exclusion.

Expiring G-TEDA Designations

HCD has exclusive authority for designating G-TEDAs, provided that no more than the maximum number of areas are designated at any one time. As the designation can take an extended period of time, HCD generally tries to issue the request for applications months in advance of expiring dates. Legislation passed in 2006[15] allows businesses in an expiring enterprise zone that were proposed for inclusion in the new zone, to be eligible for business incentives during the period that the jurisdiction has received a preliminary and final designation.

Enterprise Zones

Existing law authorizes a maximum of 42 enterprise zones. The initial term of an enterprise zone designation is 15 years. Legislation in 1998[16], however, authorized all zones created prior to 1990 to apply for a five-year extension, if they received a passing score on their audit conducted by the state. Supporters of the five-year extension argued that additional time was necessary for the pre-1990 zones because the state had not been fully prepared to receive and process the necessary tax credit vouchers in the initial years of the program, and there was a general lack of awareness of the incentives being offered. There were a total of 18 enterprise zones designated prior to 1990, all of which received a five-year extension.

Between October 2006 and March 2009, 34 California enterprise zones expired. Many of these jurisdictions chose to apply again for a new designation along with new jurisdictions. Existing law requires jurisdictions to complete the same zone designation application; including demonstrating the area meets all eligibility requirements, regardless of whether the area was previously included within an enterprise zone.

Nine enterprise zones are scheduled to expire in 2009. Applications for those zone designations were due in March 2009, and preliminary approvals for those zones is expected any day.

Local Agency Military Base Recovery Area -LAMBRAs

HCD is limited to designating eight LAMBRAs in the state, one per five geographic regions. Each LAMBRA designation is good for a period of eight years. As initially calculated from the date the local government signed an MOU with HCD, LAMBRAs would be scheduled to expire between 2007 and 2012. Legislation[17] passed in 2002, however, modified how the start of the eight-year term would be determined to more accurately reflect the period under which the LAMBRA had the authority to take action on the closed military base.

More specifically, § 7110.5 of the Government Code provides that a LAMBRA designation shall expire eight years after legal title to the economic development parcels have been transferred to the local governing body and that vouchers have been issued to an employer that has entered into a lease or received title to property located on the closed base. HCD is in the process of modifying the sunset dates on the existing LAMBRA. Under the new law, only four of the eight LAMBRAs are active, including those located at Castle, Mather/McClellan, San Bernardino, and San Diego.

[15] AB 1550 (Arambula and Karnette). Chapter 718, Statutes of 2006
[16] AB 2798 (Machado), Chapter 323, Statues of 1998
[17] AB 2875 (Vargas), Chapter X, Statutes of 2002

Manufacturing Enhancement Areas - MEAs

HCD is required to designate up to two MEAs in jurisdictions with unemployment at three times the statewide average that already have been designated as a federal Empowerment Zone, and that are located in a federal Border Environmental Cooperation Commission region. Essentially, only communities in Imperial County met this criterion and two MEAs were designated with a 15-year term commencing on January 1, 1998.

While the MEAs would be scheduled for termination on January 1, 2013, Imperial County and its cities successfully applied to include the areas in the MEA within one of the 42 enterprise zones.

Targeted Tax Area -TTA

The single TTA was designated by HCD in an area of the state that meets certain unemployment, poverty, percentage of people on public assistance and median income criteria. Tulare County was the only jurisdiction meeting such criteria. Last year, the TTA applied for one of the expiring enterprise zone designation and is awaiting HCD's announcement for the 2009 application round.

Appendix A includes a map of all G-TEDAs and Appendix B has a chart detailing key designation information.

Reporting to the Legislature

HCD is required to provide the Legislature with a report every five years that evaluates the effect of the California Enterprise Zone Program on employment, investment and income, and on state and local tax revenues within designated areas.[18] FTB is required to assist HCD in the development of the report by providing key tax information. Further, EDD is required to provide information on training provided to unemployed workers in the enterprise zone.

Reform legislation from 2006 expanded these reporting requirements to include all G-TEDAs and to also require a biennial report for each G-TEDA's progress in meeting the goals, objectives and commitments in its MOU. JEDE is currently sponsoring legislation[19] to recalibrate the reporting dates of the broader five-year program review with the narrower review of the individual G-TEDAs.

In addition, FTB is required to annually provide the Legislature with information on the utilization of the tax provisions by businesses in each enterprise zone. Among other information, FTB is required to identify the number of:

- Jobs for which hiring credits are claimed
- New hires for which hiring credits are claimed
- Businesses for which hiring credits are claimed

[18] Government Code Section 7085
[19] AB 1554 (JEDE), 2009-10 Session

EDD currently provides no information on training of unemployed workers who live in an enterprise zone or targeted tax area. EDD states that they are only required to provide existing data and that EDD does not collect data because it is not required under the federal Workforce Investment Act. If the state is interested in knowing about training opportunities within zones, the state would have to pay to have this type of information collected.

An option seemingly not considered by EDD would be to include within the state workforce strategy an initiative to link unemployed workers who receive training at EDD One-Stop Centers to job opportunities with businesses located in a G-TEDA. If the initiative were to be included in the state's workforce strategy it would be eligible for funding under the federal Workforce Investment Act.

Unlike EDD, the CDE annually provides HCD with information regarding its targeted training programs. Although CDE does not provide aggregate data by enterprise zone, its 2006 annual report does include a representative sample of the special efforts it made to provide training for unemployed individuals in California’s enterprise zones. In this sample, the CDE included the Eureka Adult School, the English Center for International Women (Oakland), the CAREGIVERS International Institute of the East Bay, the Volunteer Center of Santa Cruz, the Merced Adult School, the Fresno Unified School District, the Pomona Unified School District, and the San Diego Community College District (Continuing Education Centers).

Section III - Challenges in Evaluating Return on Investment

The California Enterprise Zone Program and the other G-TEDA programs are the largest economic development programs in the state. They are based on the economic development principle that by targeting significant incentives to lower income communities and neighborhoods these communities can more effectively compete for new businesses and retain existing businesses, resulting in greater job creation and more economically stable communities. This section discusses some of the challenges the Committee faces in evaluating the state's return on investment.

Establishing a Value for the Major Financial Incentives

In 1984, when the Legislature approved the two initial G-TEDA programs and their package of business incentives, FTB analyzed the cost of the tax benefits and stated that the programs' impact on state revenues was "unknown" but predicted "the potential exists for losses in the millions."

FTB reported that in 2006 – the most current data available – $217 million in credits were claimed through corporate and personal income tax (PIT) returns. Additionally, FTB reports hundreds of millions in carryover credits have been earned by businesses located in G-TEDAs, but have not been claimed. Below is a chart that displays the dollar amount of G-TEDA incentives claimed through each of the tax incentives.

Geographically Targeted Economic Development Areas Including EZs Tax Incentives Claimed			
	2004	**2005**	**2006**
Hiring and Sales Tax Credit	$349,127,000	$362,620,000	$385,677,000
Net Operating Loss Deductions	$72,326,105	$74,024,258	$74,024,258
Tax Impact	$5,170,880	$5,965,660	$11,350,571
Net Interest Deductions	$432,866,738	$490,128,942	$517,526,098
Tax Impact	$29,103,683	$32,395,088	$34,155,538
Business Expense Deductions	$4,387,038	$4,769,981	$4,462,832
Tax Impact	$222,128	$199,756	$187,780
Total Tax Impact	**$383,623,691**	**$401,180,504**	**$431,370,889**
			Source: FTB Economic & Statistical Research Bureau

In addition to these tax incentives, businesses and individuals located in a G-TEDA or a targeted employment area are eligible for a five-percent state procurement incentive, and access to priority training through EDD and CDE. Local communities are also contributing incentives and funding the cost of administering the local G-TEDA programs. While currently unavailable, next year each G-TEDA will report, for the first time, on the funds they expend annually to support their local G-TEDA program.

In undertaking this review it was understood that identifying the direct financial costs for implementing the G-TEDA program was achievable, but appropriately recognizing the benefits of the program would be more challenging. The next subsection includes a short review of the studies that have attempted to calculate this side of the cost-benefit equation.

Assessing Our Return on Investment

Despite the popularity of the enterprise zone concept across the country, the actual success of program is hotly debated and increasingly so in California, as the first generation of the state's G-TEDA's reach the end of their designations.

Much of the discussion around the relative successes or failures of the G-TEDA programs and individual areas is anecdotal. There have been a number of academic attempts to assess the state's G-TEDA programs, producing mixed results.

Some of the variance among study findings can be attributed to the limited access to good data sets. Research generally requires the development of a set of assumptions in order to under take the study. The assumptions made in the case of the G-TEDAs have, however, resulted in most, if not all, of the methodological approaches open to debate. Moreover, the problems in assessing the G-TEDA programs have been further complicated by a lack of consensus on why the programs have been established and what objectives are trying to be achieved.

In 1995, the Bureau of State Audits reviewed and audited TTCA's administration of the programs. The findings are revealed in the title of its report, "The Trade and Commerce Agency: The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined."

A 2001 California Research Bureau (CRB) report found that "during the 1990's, employment in enterprise zone areas grew on average at twice the rate of the comparison areas, at least for a several-year period when the tax incentives had their maximum effect."[20] However, the report noted employment numbers peaked during the beginning years of an enterprise zone's designation and then tapered off. This was potentially due to the way hiring credits manifest themselves at 50 percent of an employee's wages in the first year and are only worth 10 percent of the employee's wages in the fifth year before expiring in the sixth.

Attempting to determine the effectiveness of an individual enterprise zone has also produced varied results. Some zones have produced higher employment numbers measured against comparable demographic and census areas without hiring incentives. Other zones have produced lower employment numbers versus relatively similar areas without incentives. Some zones, especially during relatively slow job growth years, have actually seen wages decrease while in comparable areas - without incentives - wages increased.

Not surprisingly, the CRB report stated, "Researchers and government analysts have not been able to agree on the actual effectiveness of enterprise zones. To date, several studies on the effectiveness of enterprise zones have been inconclusive."[21]

---

[20] O'Keefe and Dunstan, CRB, pp. 1
[21] *Ibid* pp. 6

Responding to the differing reports, HCD commissioned its own report in 2006 to evaluate the success of enterprise zones in spurring economic recovery. More specifically, the report looked at the impact of the program on neighborhood poverty, income, rents, and vacancy rates. The report showed that, on average, within enterprise zones between 1990-2000:

- Poverty rates declined 7.35 percent more than the rest of the state.
- Unemployment rates declined 1.2 percent more than the rest of the state.
- Household incomes increased 7.1 percent more than the rest of the state.
- Wage and salary income increased 3.5 percent more than the rest of the state.

It was following the Assembly oversight hearings and HCD's report that the 2006 reform legislation[22] was enacted. Since that time, two additional reports have been released. It is important to note, however, that while the reports were released in 2008 and 2009, the business development data used to form the statistical analysis is from 2004 and earlier.

In November 2008 and later revised and re-released in March 2009, economists from the University of Southern California (USC) released a report with consistent findings of the HCD report. The USC study found that federal empowerment zone, federal enterprise communities, and state enterprise zones have "positive, statistically significant impacts on local labor markets in terms of the unemployment rate, the poverty rate, the fraction with wage and salary income, and employment."

The Pubic Policy Institute of California released its study of the enterprise zone program in June 2009, looking at whether the enterprise zone program had been successful in creating more jobs than would have otherwise been established without the zone. The main finding of the report was that, "enterprise zones have no statistically significant effect on either business creation or employment growth rates." The report also noted that the effects of the program differed between zones, perhaps due to the effectiveness of the local administration. In addition, the report found that the program had a positive effect on employment under each of the following conditions:

- When manufacturing constitutes a small share of overall zone employment
- When the zone administrator reported doing more local zone marketing activities
- When the zone administrator reported doing less facilitation of the hiring tax credit

A summary of findings from nine evaluations of the enterprise zones can be found in *Appendix D – Compilation of Important Research and Reports on the California Enterprise Zone Program.*

[22] AB 1550 (Arambula and Karnette). Chapter 718, Statutes of 2006

The Path Forward

As noted in the beginning of the white paper, the Committee is in the beginning stages of a comprehensive review of the G-TEDA program. During the course of the review, the Committee plans to hold three public hearings.

The hearings are currently scheduled for August 18, 2009 in Sacramento; October 8, 2009 in San Diego; and October 14, 2009 in San Jose. Written testimony will be accepted up until October 20, 2009, in the JEDE Committee Office.

Appendix J includes a preliminary list of recommendations presented to the Committee through legislation, letters, and stakeholder meetings held prior to this initial hearing. This list will be updated regularly to allow Members of the Legislature and the public to easily track the progress of the reform discussions.

Appendix A

Map of the Enterprise Zones and Other Geographically-Targeted Economic Development Areas

Appendix B

Background on the Enterprise Zone and Other Geographically-Targeted Economic Development Area Programs

G-TEDA	Expiration Date	Status	Assembly Members	Senators	Jurisdiction had Previous Zone Enterprise
Antelope Valley Enterprise Zone	1/31/2012	Designated	Adams (AD 59) Knight (AD 36) A. Strickland (AD 37)	Runner (SD17)	
Alameda Point LAMBRA	Pending[1]	Conditionally Designated	Swanson (AD 16)	Hancock (SD 09)	
Arvin Enterprise Zone	Pending[2]	Conditionally Designated	Fuller(AD32) Gilmore (AD 30)	Ashburn (SD 18) Florez (SD 16)	
Barstow Enterprise Zone	1/31/2021	Designated	Knight (AD 36) Conway (AD 34)	Ashburn (SD 18)	
Brawley Manufacturing Enhancement Area	12/31/2012	Designated	M. Pérez (AD 80)	Ducheny (SD 40)	
Calexico Enterprise Zone	10/14/2021	Designated	M. Pérez (AD 80)	Ducheny (SD 40)	X
Calexico Manufacturing Enhancement Area	12/31/2012	Designated	M. Pérez (AD 80)	Ducheny (SD 40)	
Castle Airport LAMBRA	12/6/2014	Designated	Galgiani (AD 17)	Denham (SD 12)	
City of LA - Hollywood Enterprise Zone	10/14/2021	Designated	Davis (AD 48) DeLeon (AD 45) Hall (AD 52) Feuer (AD 42) Fuentes (AD 39) Krekorian (AD 43) J. Perez (AD 46) Bradford (AD 51) Portantino (AD 44) Smyth (AD 38)	Calderon (SD 30) Cedillo (SD 22) Padilla (SD 20) Price (SD 26) Runner (SD 17) Liu (SD 21) Wright (SD 25) Pavley (SD 23)	X
City of LA - Harbor Area Enterprise Zone	3/3/2009	Expired	Lowenthal (AD 54)	Oropeza (SD 28) Wright (SD 25)	
Coachella Enterprise Zone	11/10/2021	Designated	M. Pérez (AD 80)	Ducheny (SD 40)	X
Compton Enterprise Zone	7/31/2022	Designated	Hall (AD 52) Bradford (AD 51) Furutani(AD 55)	Oropeza (SD 28) Lowenthal (SD 27) Wright (SD 25)	
Delano Enterprise Zone	12/16/2021	Pending[2]	Gilmore (AD 30) Conway (AD 34)	Ashburn (SD 18) Florez (SD 16)	X
East Los Angeles Enterprise Zone	1/10/2023	Designated	Calderon (AD 58) De Leon (AD 45) De La Torre (AD50) Eng (AD 49) J. Perez (AD 46)	Cedillo (SD 22) Liu (SD 21) Romero (SD 24) Calderon (SD 30)	X

			Portantino (AD 44)		
Eureka Enterprise Zone	10/14/2021	Designated	Chesbro (AD 1)	Wiggins (SD 2)	X
Fresno City Enterprise Zone	10/14/2021	Designated	Arambula (AD 31) Villines (AD 29)	Cogdill (SD 14) Florez (SD 16)	X
Fresno County Enterprise Zone	6/26/2022	Designated	Arambula (AD 31) T. Berryhill (AD 25) Galgiani (AD 17) Conway (AD 34) Gilmore (AD 30) Villines (AD 29)	Ashburn (SD 18) Cogdill (SD 14) Denham (SD 12) Florez (SD 16)	
Hesperia (2009)		Conditionally Designated	Adams (AD 59)	Runner (SD 17)	
Imperial Valley Enterprise Zone	3/28/2021	Designated	M. Pérez (AD 80)	Ducheny (SD 40)	
Kings County Enterprise Zone	6/21/2023	Designated	Gilmore (AD 30)	Florez (SD 16)	X
Lindsay Enterprise Zone	10/5/2010	Designated	Conway (AD 34)	Ashburn (SD 18) Florez (SD 16)	
Long Beach Enterprise Zone	1/7/2022	Designated	Hall (AD 52) Lowenthal (AD 54) Furutani (AD 55)	Lowenthal (SD 27) Oropeza (SD 28) Wright (SD 25)	X
Madera Enterprise Zone	3/3/2009	Expired	Villines (AD 29)	Cogdill (SD 14)	
Mare Island LAMBRA	Pending[1]	Conditionally Designated	Evans (AD 7)	Wiggins (SD 2)	
Mather/ McClellan LAMBRA	Pending[1]	Conditionally Designated	Steinberg (AD 6) Niello (AD 5)	Cox (SD 1)	
Merced County Enterprise Zone	12/16/21	Designated	Arambula (AD 31) Galgiani (AD 17)	Cogdill (SD 14) Denham (SD 12) Florez (SD 16)	X
Oakland Enterprise Zone	Pending[2]	Conditionally Designated	Skinner (AD 14) Hayashi (AD 18) Swanson (AD 16)	Hancock (SD 9)	X
Oroville Enterprise Zone	11/5/2021	Designated	Logue (AD 3) Nielsen (AD 2)	Aanestad (SD 4)	X
Pasadena Enterprise Zone	4/9/2021	Designated	Eng (AD 49) Portantino (AD 44)	Cedillo (SD 22) Liu (SD 21) Huff (SD 29)	X
Pittsburg (2009)		Conditionally Designated	Torlakson (AD 11)	DeSaulnier (SD 7)	X
Richmond Enterprise Zone	3/1/2022	Designated	Skinner (AD 14)	Hancock (SD 9)	X
Sacramento (2009)		Conditionally Designated	Buchanan (AD 15) Huber (AD 10) Jones (AD 9) Niello (AD 5)	Cox (SD 1) Steinberg (SD 6)	
Sacramento - Army Depot Enterprise Zone	10/3/2009	Expired	Jones (AD 9) Huber (AD 10) Niello (AD 5)	Steinberg (SD 6)	
Sacramento - Florin/Perkins Enterprise Zone	4/4/2009	Expired	Huber (AD 10)	Cox (SD 1) Steinberg (SD 6)	
Sacramento – North Enterprise Zone	10/14/2021	Designated	Jones (AD 9) Niello (AD 5)	Steinberg (SD 6)	X

S. California Logistics Airport LAMBRA	10/27/2015	Designated	Knight (AD 36)	Runner (SD 17)	
Salinas Valley Enterprise Zone	1/29/2024	Designated	Caballero (AD 28)	Denham (SD 12)	
San Bernardino International Airport LAMBRA	09/07/2015	Designated	Carter (AD 62)	Negrete McLeod (SD 32)	
San Bernardino Enterprise Zone	10/14/2021	Designated	Carter (AD 62) Cook (AD 65) Emmerson (AD 63) Adams (AD 59)	Dutton (SD 31) Negrete McLeod (SD 32) Runner (SD 17)	X
San Diego Enterprise Zone	10/14/21	Conditionally Designated	Block (AD 78) Anderson (AD 77) Fletcher (AD 75) Saldana (AD 76) Salas (AD 79)	Ducheny (SD 40) Hollingsworth (SD 36) Kehoe (SD 39) Wyland (SD 38)	X
San Francisco Enterprise Zone	5/27/2022	Conditionally Designated	Ammiano (AD 13) Ma (AD 12)	Leno (SD 3) Yee (SD 8)	X
San Joaquin County Enterprise Zone	6/21/23	Designated	B. Berryhill (AD 26) Galgiani (AD 17) Huber (AD 10)	Cogdill (SD 14) Wolk (SD 5)	X
San Jose Enterprise Zone	12/30/2021	Designated	Beall (AD 24) Coto (AD 23) Fong (AD 22)	Alquist (SD 13) Corbett (SD 10)	X
Santa Ana Enterprise Zone	6/7/23	Designated	Solorio (AD 69) Miller (AD 71)	Correa (SD 34)	X
Santa Clarita Enterprise Zone	6/30/2022	Designated	Smyth (AD 38)	Strickland (SD 19) Runner (SD 17)	
San Diego Naval Training Center LAMBRA	Pending[1]	Conditionally Designated	Salas (AD 70) Block (AD 78)	Ducheny (SD 40)	
Shafter Enterprise Zone	10/3/2010	Designated	Gilmore (AD 30)	Florez (SD 16)	
Shasta Enterprise Zone	11/5/2021	Designated	Nielsen (AD 2)	Aanestad (SD 4)	X
Siskiyou County Enterprise Zone	6/21/2023	Designated	Nielsen (AD 2)	Aanestad (SD 4)	X
Southgate/ Lynwood Enterprise Zone	10/14/2021	Designated	De La Torre (AD 50) Hall (AD 52)	Calderon (SD 30) Lowenthal (SD 27) Wright (AD 25)	X
Stanislaus County Enterprise Zone	11/15/2020	Designated	B. Berryhill (AD 26) T. Berryhill (AD 25)	Cogdill (SD 14) Denham (SD 12)	
Taft (2009)		Conditionally Designated	Fuller (AD 32)	Ashburn (SD 18) Florez (SD 16)	
Tulare (2009)		Conditionally Designated	Conway (AD 34) Gilmore (AD 30) Arambula (AD 31)	Ashburn (SD 18) Florez (SD 16)	
Tulare Targeted Tax Area	12/31/2012	Designated	Gilmore (AD 30)	Florez (SD 16)	
Tustin Legacy LAMBRA	Pending[1]	Conditionally Designated	DeVore (AD 70)	Walters (SD 33)	
Watsonville Enterprise Zone	4/30/2012	Designated	Monning (AD 27) Caballero (AD 28)	Wolk (SD 5)	
West Sacramento Enterprise Zone	1/10/2023	Conditionally Designated	Yamada (AD 8)	Wolk (SD 5)	X
Yuba/Sutter Enterprise Zone	10/14/2021	Designated	Logue (AD 3) Nielsen (AD 2)	Aanestad (SD 4)	X

Pending1: These LAMBRAS have not received final designation pending the final transfer of title by the Federal Government. Once title has been transferred, the final designation can be made, and the 8-year period of eligibility will commence.

Pending2: The final designation of these Enterprise Zones will be made following execution of the MOU.

Appendix C

Legislative History: Major Bills Affecting the California Enterprise Zone and other Geographically-Targeted Economic Development

Below is a discussion of the evolution of California's Enterprise Zone Program. This is not a conclusive list of the entirety of legislation affecting enterprise zones, but is a partial listing of the most important pieces of enterprise zone legislation since the program's inception.

- **AB 514 (Waters) Chapter 44, Statutes of 1984**
  Enacts the Employment and Economic Incentive Act, which authorizes the Department of Commerce to designate nine neighborhood economic development areas and nine targeted economic development areas within the state for renewable five-year designations.

- **AB 40 (Nolan) Chapter 45, Statutes of 1984**
  Enacts the Enterprise Zone Act, which authorizes the Department of Commerce to designate no more than 10 areas as enterprise zones. This bill provides tax credits to businesses for locating in certain geographically-designated enterprise zones.

- **AB 1842 (Nolan) Chapter 826, Statutes of 1985**
  Authorizes the state or local governments to lease surplus property located within a certified neighborhood enterprise association corporation to the corporation at a price below fair market value, provided that it serves a public purpose.

- **AB 1843 (Nolan and Waters) Chapter 1462, Statutes of 1985**
  Makes a number of significant changes to the various tax incentives under the Enterprise Zone Act and the Employment and Economic Incentive Act:

  <u>A. Employer Tax Credits:</u>
  Allows a business to claim the credit for wages paid to an employee during their first five years of employment, regardless of how long the business has operated in the enterprise zone. Allows an employer to claim a hiring credit for employees who are claimed under the state or federal targeted jobs tax credit.

  <u>B. Tax Credit for Employees:</u>
  Extends the credit availability for an employee to claim a tax credit for five percent of their wages for all years during which the area is designated as an enterprise zone.

  <u>C. Sales Tax Credits:</u>
  Extends the tax credit for sales taxes paid on the purchase of machinery and parts, under the Bank and Corporation Tax Law to businesses located in enterprise zones and places a $20 million cap on the credit. Requires the equipment to be used exclusively in the enterprise zone to qualify for the credit.

  <u>D. Net-Operating Loss Carryover (NOL):</u>

Lengthens the Net Operating Loss carryover period from three years to 15 years and extends the NOL provisions to businesses that were operating in the enterprise zone area prior to its designation as an enterprise zone.

E. Accelerated Depreciation and Expensing:
Businesses in enterprise zones may recover the cost of machinery quickly by deducting as a current expense, as opposed to depreciating, up to 40 percent of the cost of equipment each year. Raises the costs that may be expensed from $5,000 to $100,000 for each of the first two years of the designation, from $7,500 to $75,000 for each of the next two years, and from $10,000 to $50,000 for each subsequent year.

- **AB 251 (Nolan) Chapter 899, Statutes of 1989**
  Allows the Department of Commerce to increase the number of existing enterprise zones from 10 to 25.

- **AB 379 (Nolan) Chapter 330, Statutes of 1990**
  Amends sections of the Revenue and Taxation Code pertaining to the "three factor unitary formula" used to calculate tax credit limits, for businesses having operations inside and outside the program area, as they apply to net operating loss carry-forward credits. By eliminating the "sales-in-zone" factor (leaving only the property- and payroll-in-zone factors), enterprise zone businesses are expected to qualify for somewhat larger credits against net operating losses.

- **SB 898 (Mello) Chapter 264, Statutes of 1993**
  Authorizes the California Public Utilities Commission to provide rate incentives to industries or businesses located within an enterprise zone that engages in activities in connection with the conversion of Ford Ord to other uses.

- **AB 57 (W. Brown) Chapter 879, Statutes of 1993**
  This bill would permit the jobs credit and sales tax credit available to businesses located in enterprise zones, program areas, and the Los Angeles Revitalization Zone to be used to reduce the regular tax below the alternative minimum tax.

- **AB 2279 (Pringle) Chapter 286, Statutes of 1994**
  Makes technical, nonsubstantive changes to the Bank and Corporation Tax Law that allows a deduction in computing the income, subject to the tax imposed by that law of net interest received by the taxpayer, in payment of indebtedness of a business located in an enterprise zone.

- **SB 344 (Greene) Chapter 750, Statutes of 1994**
  Allows the Sacramento Army Depot to be redesignated as an enterprise zone.

- **SB 1438 (Mello) Chapter 754, Statutes of 1994**
  Requires the Trade and Commerce Agency to designate an additional two enterprise zones, in Watsonville and Palmdale, bringing the total number of zones to 27.

- **SB 1770 (Alquist) Chapter 755, Statutes of 1994**
  Redefines qualified employee for purposes of the enterprise zone tax credit to be an employee who is eligible for the Federal Job Training Program, the Federal Targeted Jobs Tax Credit Program, or the Greater Avenues for Independence Program, rather than determined to be eligible or certified.

- **AB 2206 (Bornstein) Chapter 853, Statutes of 1994**
  Allows an existing enterprise zone, located in the unincorporated area of a county, to propose expansion of the geographical area encompassed by the zone if the Trade and Commerce Agency finds that certain conditions are met.

- **SB 881 (Killea) Chapter 913, Statutes of 1994**
  Allows specified bonds as financing incentives under the State Enterprise Zone Act and Employment and Economic Incentive Acts and expands the use of industrial development bonds for enterprise zones to include financing of private commercial enterprises in addition to manufacturing facilities.

- **AB 2576 (Baca) Chapter 945, Statutes of 1994**
  Permits the Public Utilities Commission to authorize specified rate discount programs to companies whose facilities are located or will locate within enterprise zones, recycling market development zones, or economic incentive areas.

- **SB 712 (Committee on Revenue and Taxation) Chapter 494, Statutes of 1995**
  Authorizes the Trade and Commerce Agency (TCA) to designate an additional two enterprise zones raising the possible number of zones from 27 to 29. This bill corrects a drafting error in the original legislation that authorized the creation of two small cities' enterprise zones but failed to authorize the enterprise zone tax incentives.

  This bill restores provisions which prevent the State from recapturing tax credits claimed by taxpayers if the TCA determines that portions of the Los Angeles Revitalization Zone (LARZ) do not meet the original statutory criteria, and as a result eliminate segments of the LARZ.

- **SB 1952 (Mello) Chapter 215, Statutes of 1996**
  Existing law requires the Public Utilities Commission (PUC) to authorize public utilities to engage in programs to encourage economic development. The PUC is authorized to provide incentives for the benefit of industries or business entities located within the boundaries of enterprise zones, economic incentive areas, or recycling market development zones.

  This bill also authorizes the PUC to provide incentives for the benefit of industries or business entities located within the boundaries of federal rural enterprise communities.

- **SB 715 (Committee on Revenue and Taxation) Chapter 952, Statutes of 1996**
  This bill clarifies that the carry over provision is with respect only to tax on income from the zone and not the taxpayer's total tax from all income.

- **AB 296 (Knight) Chapter 953, Statutes of 1996**
  Merges the Enterprise Zone Act and the Employment and Economic Incentive Program into the Enterprise and Employment Zone Program. This bill specifies that former enterprise zones or program areas are designated as Enterprise and Employment Zones and there shall be no more than 39 Enterprise and Employment Zones designated.

  Allows a 15% geographic expansion of each zone if the boundaries are contiguous and specifies that no zone shall be permitted more than one expansion.

  Requires the Trade and Commerce Agency to submit a report to the Legislature every five years evaluating the effect of the program on employment, investment, and incomes on state and local tax revenues. Joined to SB 2023 (Costa) Chapter 955, Statutes of 1996.

- **SB 38 (Lockyer) Chapter 954, Statutes of 1996**
  This bill comprises the Conference Report of the Tax Cut Conference Committee, enacting 24 different changes in law affecting tax cuts and 11 changes in law, which will result in increasing state revenues.

  In a manner similar to AB 3311 (Kuykendall), this bill modifies the hiring credit allowed in the Long Beach Enterprise Zone for qualified disadvantaged individuals employed in aircraft manufacturing activities. The credit would increase from 150% of the minimum wage to 202% of the minimum wage. The hiring credit is limited to the first 1,350 qualified employees hired.

- **SB 2023 (Costa) Chapter 955, Statutes of 1996**
  Merges the Enterprise Zone Act and the Employment and Economic Incentive Program into the Enterprise and Employment Zone Program. This bill specifies that former enterprise zones or program areas are designated as Enterprise and Employment Zones and there shall be no more than 39 Enterprise and Employment Zones designated.

  Allows a 15% geographic expansion of each zone if the boundaries are contiguous and specifies that no zone shall be permitted more than one expansion.

  Requires the Trade and Commerce Agency to submit a report to the Legislature every five years evaluating the effect of the program on employment, investment, and incomes on state and local tax revenues. Joined to AB 296 (Knight), Chapter 953, Statutes of 1996.

- **AB 797 (Takasugi) Chapter 461, Statutes of 1997**
  Decreases the level of work from 100% to 90% that must be done at a worksite(s), located in an enterprise zone, in order for California based companies to qualify for a 5% preference on the price submitted for service contracts exceeding $100,000.

  Authorizes an enterprise zone jurisdiction that has already designated a target employment area to request redesignation of the area using more current census data and allows enterprise zones to use the most recent census data available for purposes of designating a Targeted Employment Area.

Requires an enterprise zone governing body to provide information at the request of the Trade and Commerce Agency (TCA) so TCA may prepare a report to the Legislature, which is required by law every five years beginning January 1, 1998, that evaluates the effectiveness of the enterprise zone program.

Requires the Franchise Tax Board to make information available annually to TCA and the Legislature pertaining to the dollar value of tax credits claimed each year by businesses.

- **SB 1106 (Committee on Revenue and Taxation) Chapter 604, Statutes of 1997**
  Provides that a taxpayer may use any net operating loss carryover against the income that a taxpayer derived from a business conducted in an expired enterprise zone or in an expired Los Angeles Revitalization Zone as if the zone remained in existence.

- **AB 2798 (Machado) Chapter 323, Statutes of 1998**
  Changes the expansion of enterprise zones and changes the formulas used to calculate the value of tax incentives under all of the State's geographically-based economic development programs. Allows enterprise zones designated prior to 1990 to retain designation for 20 (rather than 15) years.

  Allows an enterprise zone that is no greater than 13 square miles on the original date of designation to expand by a maximum of 20%, rather than 15%. Authorizes the Trade and Commerce Agency (TCA) to audit enterprise zones and to "dedesignate" an enterprise zone that receives a failing audit grade and fails to correct its substandard performance. Clarifies that TCA is authorized to designate new enterprise zones once any of the 39 currently authorized zones expires or is designated.

- **AB 3 (Baca) Chapter 1012, Statutes of 1998**
  Allows for the designation of three additional Local Agency Military Base Recovery Areas (LAMBRAs) for a total of eight LAMBRAs. Merges the employment credit criteria for qualified disadvantaged individuals" with the existing criteria for "qualified displaced employee" and makes various changes to LAMBRA tax incentives.

- **AB 835 (Wright) Chapter 1030, Statutes of 1998**
  The State is required to award a 5% preference for a proposal for a services contract in excess of $100,000 to California based companies that certify under penalty of perjury that no less than 90% of the labor required to perform the contract is at a worksite(s) located in an enterprise zone

  This bill requires the California-based company to demonstrate its eligibility of the 5% preference and to certify under penalty of perjury the company's eligibility for any additional preference, based on its hiring of persons with a high risk of unemployment; requires that the 5% preference for a services contract in excess of $100,000 in a distressed area depend on whether the company demonstrates and certifies that not less than 90% of the labor hours required to perform the contract shall be accomplished at an identified worksite(s) located in the enterprise zone.

- **AB 2809 (Committee on Revenue and Taxation) Chapter 1039, Statutes of 1998**
  Clarifies that reemployment of a seasonal employee shall not constitute commencement of employment for purposes of the hiring credits available to businesses located in the five State economic development areas: enterprise zones, the Los Angeles Revitalization Zone (LARZ), Local Agency Military Base Recovery Areas (LAMBRA), Targeted Tax Areas, and Manufacturing Enhancement Areas.

  For purposes of the credit computation, seasonal employees are considered continually employed until they are not re-hired in the applicable subsequent season. This bill clarifies that recapture rules for hiring tax credits are applicable when seasonal hires are not re-hired in the applicable subsequent season.

  This bill corrects a potential chaptering out error by reinstating the December 1, 1998 sunset date for the Los Angeles Revitalization Zone program as opposed to January 1, 1998.

- **SB 84 (Costa and Poochigian) Chapter 137, Statutes of 1999**
  An enterprise zone located in a city or the unincorporated area of a county may be expanded into an adjacent city or cities under certain conditions, including the condition that land included within the proposed expansion area is zoned for industrial or commercial use.

  This bill authorizes the Counties of Fresno and Kern to expand their zones in nonindustrial or noncommercial land, and also authorizes the expansion of an enterprise zone located in a city or in the unincorporated area of the county into an adjacent unincorporated area.

- **AB 1637 (Committee on Revenue and Taxation) Chapter 930, Statutes of 1999**
  The Personal Income Tax Law provides only certain credits may reduce specified taxes below the tentative minimum tax. This bill allows credits relating to the enterprise zone hiring credit, and the enterprise zone sales or use tax credit, to reduce those taxes below the tentative minimum tax.

- **SB 43 (Johnston & Solis) Chapter 491, Statutes of 2000**
  Streamlines and clarifies statutes relating to the Employment Training Panel in order to ease the transition of phasing out the Federal Job Training Partnership Act and implementing the Federal Workforce Investment Act.

- **SB 511 (Alarcon) Chapter 616, Statutes of 2000**
  Authorizes additional criteria upon which an enterprise zone may be based; requires the Trade and Commerce Agency to provide special considerations or bonus points to enterprise zone applications meeting at least two specified demographic criteria; clarifies that joint powers agencies may administer enterprise zones; clarifies that allowable enterprise zone expansions may cross any jurisdictional boundary.

- **AB 1843 (Ackerman) Chapter 862, Statutes of 2000**
  The Bank and Corporation Tax Law imposes a franchise tax measured by the net income from California sources of the preceding calendar or fiscal year, which is referred to as

the “income year.” The calendar or fiscal year for which the tax is imposed for the privilege of doing business in this state is referred to as the “taxable year.” This bill deletes references to “income year” and defines “taxable year” as the calendar or fiscal year upon the basis to which the net income is computed.

- **AB 2889 (Committee on Consumer Protection, Governmental Efficiency and Economic Development) Chapter 1055, Statutes of 2000**
  The Trade and Commerce Agency (TCA) is the successor to the Department of Commerce. This bill makes conforming changes to law that reflect TCA as the successor to the Department of Commerce regarding the authority transfer of the enterprise zone program.

- **AB 254 (Frommer) Chapter 548, Statutes of 2001**
  This bill modifies the Cleanup Loans and Environmental Assistance to Neighborhoods (CLEAN) Program. The CLEAN Program provides loans for the investigation and cleaning up of brownfields and underutilized properties in urban areas. Underutilized properties include property in an enterprise zone or a redevelopment project area. Clean program was established by SB 667 (Sher), Statutes of 2000.

- **AB 46 (Washington) Chapter 587, Statutes of 2001**
  Expands the number of enterprise zones from 39 to 42 and expresses legislative intent for at least one zone to focus on inner city impoverished areas.

- **SB 305 (Ducheny) Chapter 593, Statutes of 2003**
  Transfers authority of the Enterprise Zone program from the Technology, Trade, and Commerce Agency to the Department of Housing and Community Development.

- **AB 1410 (Wolk) Chapter 772, Statutes of 2003**
  Requires any agency of the state and any local agency send a written offer to sell or lease for enterprise zone purposes any surplus property in an area designated as an enterprise zone to the nonprofit neighborhood enterprise association corporation in that zone.

- **SB 1097 (Senate Committee on Budget and Fiscal Review) Chapter 225, Statutes of 2004**
  Authorizes the Department of Housing and Community Development and local governments to charge and collect certain fees in connection with the Enterprise Zone and Employment Act. Provides that the certification an employee meets specified eligibility requirements for a hiring credit may be obtained from the local government administering each enterprise zone. Requires Department of Housing and Community Development to develop regulations that govern the issuance of hiring credit certification by a local government.

- **AB 2397 (S. Horton) Chapter 277, Statutes of 2004**
  Authorizes the Department of General Services to declare contractors ineligible to transact with the state for a period of no less than six months and no more than 36 months for specified violations, including false certification under the Enterprise Zone and Employment Act.

- **AB 139 (Committee on Budget) Chapter 74, Statutes of 2005**

Extends the $10 assessment fee that the Department of Housing and Community Development is required to assess an enterprise zone for each application it accepts for issuance of a tax credit certificate from July 1, 2006 to January 1, 2007.

- **AB 1563 (Committee on Jobs, Economic Development, and the Economy) Chapter 518, Statutes of 2005**
  Requires the Department of Housing and Community Development to include in its five-year reports to the Legislature, reviewing the progress and effectiveness of each enterprise zone, a review of any efforts made regarding training of unemployed individuals.

- **AB 1550 (Arambula) Chapter 718, Statutes of 2006**
  Makes several significant changes to the management and oversight of the Enterprise Zone and Geographically-Targeted Economic Development Area programs. Key provisions include:

  Allows cities and counties to apply for a enterprise zone designation that includes noncontiguous boundaries with the approval of HCD.

  Requires Targeted Employment Area boundaries be updated within 180 days of new census data becoming available and Requires applications received after January 1, 2007 be ranked based on their economic development strategy and implementation plan.

  Authorizes an expiring enterprise zone that applies for a new designation, and receives a conditional designation letter from HCD, to offer all EZ benefits until HCD makes a final designation or declines to designate the zone.

  Adds a new auditing element that requires the review of an enterprise zones administrative support and whether financial commitments made in the application and memorandum of understanding (MOU) have been kept, requires a biennial report to HCD and must update their G-TEDAs goals by April 15, 2008 if designated before January 1, 2007.

- **SB 783 (Lowenthal) Chapter 634, Statutes of 2006**
  Authorizes the Department of Housing and Community Development to charge a fee, for the administration of the Geographically-Targeted Economic Development Area programs and makes specified findings and declarations with respect to the imposition of the fees.

- **SB 341 (Lowenthal) Chapter 643, Statutes of 2007**
  Expands the ways in which a local government applying for an enterprise zone designation after October 1, 2007, may meet the requirements of CEQA and eliminates the ability for these jurisdictions to limit subsequent environmental reviews based on the contents of the initial CEQA documents.

- **AB 1139 (J. Perez) Status: Assembly Jobs, Economic Development Committee, hearing set January 5, 2010.**
  Revises credit eligibility, calculation, redemption and reporting of the hiring credit, under the Personal Income Tax and the Corporate Tax, for businesses located in enterprise zones.

- **AB 1159 (V. Manuel Pérez) Status: Assembly Revenue & Taxation Committee, hearing to be set January, 2010**
  AB 1159 establishes the California Cleantech Advantage Act of 2008. This bill encourages the cleantech industry to combine focused incentives with the state's most comprehensive economic development infrastructure. In doing so, strengthens California's position California as a global leader in the coming cleantech business explosion. The tax incentive provided by this bill will attract new venture capital to these historically underserved areas, while helping the state meet a variety of environment objectives.

Appendix D

Compilation of Important Research and Reports on California's Enterprise Zones

Much of the discussion involving California's Enterprise Zone Program is anecdotal. When the program was enacted in 1984, it included limited mechanisms to evaluate the program and its effectiveness. Subsequent legislative changes have required the Technology, Trade, and Commerce Agency, and now the Department of Housing and Community Development, to provide reports to the Legislature on the California Enterprise Zone Program.

The availability of outside research, typically academic reports, on enterprise zones in California is relatively sparse; however, this appendix attempts to provide a summation of some of the most recent, and most important, academic work regarding enterprise zones in California. The descriptions include key portions of the selected report findings. The scope of the studies and the methodological approaches vary significantly. Further complicating a direct comparison of the studies are the changes to the program which have occurred over the last 20 years. In preparing the descriptions, staff has attempted to present the information in a fair and unbiased manner. The findings and conclusions of these reports are not necessarily universally endorsed. For full citation of the reports listed below, please see the bibliography.

- ***Evaluation of California's Enterprise Zone and Employment and Economic Incentive Programs*** (David E. Dowall, Marc Beyeler, and Chun-Cheung Sidney Wong, 1994)

    - The main question the study asked was, "Have California's enterprise zone and incentive area programs had any measurable impact on the number of establishments and levels of employment of businesses located in zone and incentive areas?"

    - In the early years of the enterprise zone program(s), virtually all of the actual 1986-90 employment growth that took place in enterprise zone and program areas is the result of population growth and industrial growth components. When these two growth factors are accounted for, the total residual effect component for the zone program(s) is actually negative.

    - There is little evidence that enterprise zone program incentives are effective in either creating jobs or stimulating increased business investment.

    - The majority of businesses that took advantage of hiring credits appears to have been because of an added benefit as opposed to an incentive.

    - "The existing Enterprise Zone and Economic Incentive Area programs have produced very modest economic benefits, and there is little evidence to suggest that they have strengthened the economic advantages of the zone and program areas."

- ***Trade and Commerce Agency: The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot be Determined*** (Bureau of State Audits 1995)

    - The Agency (Technology, Trade, and Commerce) should take the following actions:

        - "Establish and implement a plan to monitor, evaluate, and report on the effectiveness of the programs, which includes identification and establishment of the performance measures, a system to obtain complete and reliable data about program achievements, and a determination of how it will evaluate reported achievements against those performance measures."

    - The Legislature needs to consider implementing the following:

        - "Imposing reporting requirements on businesses in the enterprise zones and program areas and requiring that local administrators of the programs establish performance measures, collect data to measure performance, and report their results."

- ***Evaluation of California's Enterprise Zones*** (Suzanne O'Keefe and Roger Dunstan, August 2001)

    - In order to determine whether the California Enterprise Zone Program works, the O'Keefe and Dunstan evaluation looked at whether there was more job growth in enterprise zones, as compared to comparable areas, and whether worker incomes were higher or lower. To compare enterprise zones to comparable areas without zones, the researchers collected data about economic and demographic census tracts within enterprise zones and compared them to tracts with similar data outside of zones.

    - Employment in enterprise zones in the 1990s grew at much faster rates than in comparable areas; however, employment growth tapers off after the first few years of zone designation, possibly because of the depleting value of hiring credits.

    - When overall California job growth trends were down, jobs in enterprise zones produce notably lower incomes than comparable jobs outside of zones, possibly because hiring credit cap of 150% of minimum wage. "The incentive is for lower wage jobs, and that's exactly what we get."

    - "Enterprise zones have done wonders in some cities, and not much in others."

This report was produced by the California Research Bureau, California State Library.

- ***Job Creation in California's Enterprise Zones: A Comparison Utilizing a Propensity Score Matching Model*** (Suzanne O'Keefe, 2003)

    - To estimate the value of enterprise zone designation, this second O'Keefe study looked at growth in employment, growth in wages and growth in the number of firms. The study matched enterprise zone census tracts to census tracts without enterprise zones using census data and a propensity score matching model.

      The complex propensity score matching model estimates the probability of a census tract becoming part of an enterprise zone using observed characteristics. Each enterprise zone census tract is compared to a census tract without enterprise zone designation, located in the same county, with the closest propensity score.

    - Employment has grown faster in enterprise zones than outside of enterprise zones.

    - Average monthly annual earnings in enterprise zones rose at a slower rate than earnings in matched non-enterprise zone area but the margin is not statically significant.

    - The total number of firms grew less within enterprise zones than in the matched non-enterprise zone areas. The study suggests that enterprise zones are attracting large firms rather than small businesses.

  The report was published in the Journal of Urban Economics 55 (2004) 131-150.

- ***Cost-Benefit Analysis of California's Enterprise Zone Program*** (June 5, 2003)

    - The Applied Economics study examined the extent to which enterprise zones generate enough additional state revenues to offset the costs of the business incentives. The study reviewed whether new taxes paid by firms located in enterprise zones covers the costs to the state of the program.

    - Cost of personal and corporate zone tax credits in 2002 was $173 million while the 2002 personal income tax, sales tax and corporate income tax attributable to enterprise zones is estimated at $249 million.

    - The cumulative net benefits for the years available—1992-2002—is estimated at $1.7 billion.

  This report was prepared for the California Association of Enterprise Zones (CAEZ) by Applied Development Economics.

- ***An Overview of California's Enterprise Zone Hiring Credit*** (Legislative Analyst's Office, December 2003)

- Enterprise zone credits tend to have an impact on business location within a region if a firm has already decided to locate within a particular geographic region. Results indicate that enterprise zone credits may result in the shifting of jobs within a region, as opposed to increasing the number of jobs within that region.

- Because enterprise zone incentives effect the distribution of activity within a region versus increasing the amount of activity in a region, zone incentives are most effective when they are narrowly focused.

- Hiring credits do appear to have a positive impact on the demand for labor.

- "To the extent that the Legislature wished to expand the economic base of the state as a whole, the use of EZ incentives would *not* appear to be particularly effective means by which to achieve this goal."

- Enterprise zone "incentives are unlikely to result in significant *net* positive economic impacts absent additional targeted public investment."

This report was prepared for the Assembly Committee on Revenue and Taxation.

- ***Report to the California Department of Housing and Community Development on Enterprise Zones*** (August 18, 2006)

  - This purpose of this study is to ascertain the California State Enterprise Zone Program's success in meeting it objectives:

    - Stimulate business and industrial growth in depressed areas of the State;
    - Help attract business into the State;
    - Help Retain and expand business and industry; and
    - Create increased job opportunities for all Californians.

  - All California enterprise zones from 1980 through 2004, were examined by the research team. The Data were drawn from publically-available information, data shared by the California Franchise Tax Board and the Department of Housing and Community Development.

  - Results indicate that the enterprise zone program creates jobs, decreases poverty, increases household incomes, decreases vacancy rates, and increases rents for enterprise zone areas. These results were stronger for zones established in the 1990s than those established in the 1980s.

  - Analysis of individual enterprise zones showed widely-varying effectiveness in terms of job creation, income growth and tax costs of jobs created.

  - New jobs associated with enterprise zone hiring credits may be in excess of 56,000 for 2004 and total hiring credit costs for 2003 is estimated to be $300 million.

- A definitive costs-benefits analysis cannot be done because of the limitations to the tax-cost data. HCD indicates many vouchers processed outside of firms' enterprise zone districts. This creates difficulty in accurately measuring employment impacts for each enterprise zone.

- It is recommended that a centralized data collection system be established which is used by every enterprise zone when vouchering employees.

This report was prepared by Nonprofit Management Solutions and Tax Technology Research, LLC, for the California Department of Housing and Economic Development

- ***Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Communities*** *(*November 2008, Revised March 2009)

  - This is the first study to jointly look at the impacts of the State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Community programs on local labor markets, allowing policy makers to compare the impacts of these programs.

  - In this study, an estimation approach is used that is valid under weaker assumptions to measure the impact of all three programs on the local labor market, they considered three comparison groups and let the data determine the appropriate group.

  - By looking at national effects with disaggregated data, the paper shows that State Enterprise Zone designations generally have a positive effect on the local labor market,
  - while most previous research on State Enterprise Zones, much of which used more geographically aggregated data to look at state-specific effects, did not find any significant impacts.

  - All three programs have positive, statistically significant, impacts on local labor markets in terms of the unemployment rate, the poverty rate, the fraction with wage and salary income and employment. Further, the effects of the Federal Empowerment Zone and the Federal Enterprise Community Programs are considerably larger than the impacts of State Enterprise Zone Programs.

This study was prepared by University of Southern California.

- ***Do California's Enterprise Zones Create Jobs?*** (Jed Kolko and David Neumark June 2009)

  - The California Enterprise Zone Program goals are attracting jobs and businesses and increasing local employment; improving welfare by lowering poverty and unemployment and raising incomes. The question the report asks is "Does the Enterprise Zone program increase employment?"

- On average, enterprise zones have no effect on business creation or job growth. Several findings and recommendations that may be useful in making enterprise zones more effective in the future are also included. Two relatively small recommendations are:

    - Require that local zone administrators and applicants create digitized maps from their zones using geographic information systems (GIS) software.

    - Require that enterprise zones follow Census tract boundaries.

- The program's effectiveness differs across zones, appearing to have a more favorable effect on job creation in zones with smaller employment shares in manufacturing and in zones where the administrators report greater marketing and outreach activity.

- The report uses the U.S. Census and the National Establishment Time-Series (NETS), as well as, other sources of data and methods to measure employment within the enterprise zones for each year from 1992 through 2004.

This report was prepared by the Public Policy Institute of California.

Appendix E

California's Geographically-Targeted Economic Development Programs

Below is a list of the five major programs offered in California to provide certain incentives to encourage business attraction, retention, expansion and employment opportunities for areas that are typically seen as economically depressed.

<u>Enterprise Zones (EZs)</u>

The California Enterprise Zone Program came into existence in 1984 with AB 514 (M. Waters) Chapter 44, and AB 40 (Nolan) Chapter 45. These two bills enacted the Employment and Economic Incentive Act and the Enterprise Zone Act, respectively. These two programs were later merged into the Enterprise and Employment Zone Program.

The intent of the program is to attract, retain and expand businesses, as well as increase employment opportunities for unemployed and underemployed individuals in economically depressed areas of the State.

Initially, there were 10 enterprise zones and 3 program areas. Currently, there are 42 designated zones, all of which have an initial designation of 15 years. All of the pre-1990 enterprise zones have received 5-year extensions, bringing the life of the zone to 20 years.

Below is a partial listing of State Enterprise Zone benefits:

- Hiring tax credits for hiring qualified employees. Firms can earn $31,544 or more in state tax credits for each qualified employee hired

- Carry-forward of 100% of any net operating loss may be carried forward for 15 years (suspended for tax years 2002 and 2003);

- Tax credits for sales tax paid on the purchases of eligible machinery and parts on purchases of $20 million per year;

- Up-front expensing of depreciable property Lenders to businesses in the zone may receive a net interest deduction

- Unused tax credits can be applied to future tax years; and

- Enterprise Zone companies can earn preference points on State contract.

Local Agency Military Base Recovery Areas (LAMBRAs)

The Local Agency Military Base Recovery Areas (LAMBRAs) program came into existence in 1993 with AB 693 (Cannella) Chapter 1216. Local governments applied to the Trade and Commerce Agency for formation of LAMBRAs comprising of all or part of a military base closed pursuant to the various base closure acts. Currently the Department of Housing and Community Development (HCD) has ongoing responsibility for the LAMBRA program. The purpose of the legislation was to adopt the Enterprise Zone model to former military base areas.

HCD is limited to designating eight LAMBRAs in the state and one per geographic region. Each LAMBRA designation is good for a period of eight years. The LAMBRAs will expire between 2007 and 2012. Currently, the LAMBRAs are located in Alameda County, Merced County, Solano County, Sacramento County, San Bernardino County, San Diego County, and Orange County.

Below is a partial listing of State LAMBRA benefits:

- Up to 100% Net Operating Loss (NOL) carry-forward. NOL may be carried over for a period of 15 years;

- Firms can earn over $31,544 or more in State tax credits for each qualified employee hired, and up to $2,000,000 per firm per year;

- Corporations can earn sales tax credits on purchases of $20,000,000 per year of qualified machinery and parts;

- Expensing of certain depreciable property capped at $40,000 annually; and

- Unused tax credits to be carried over and applied to future tax years.

- In addition to tax credits, LAMBRA's have community incentives as part of the business attraction package. The incentives may include the use of machinery tools, or office equipment left behind by the military.

Los Angeles Revitalization Zone (LARZ)

The Los Angeles Revitalization Zone was created in 1992 with the enactment of AB 38 (Archie-Hudson) Chapter 17. The LARZ legislation was designed to assist Los Angeles County recover from some of the effects of the 1992 riots and arson. The LARZ provided various tax credits and certain other tax reductions that were largely modeled on the Enterprise Zone program.

While the authority for LARZ has sunsetted, previously issued tax credits are still eligible to be carried forward as if the program still existed.

Below is a partial listing of LARZ benefits:

- Hiring credits for construction workers who are residents of the LARZ, equal to 100% of the first 150% of minimum wage per hour for a period of six months. The hiring credit would be reduced to 75% for the next six months and would fall to 50% for the next four years;

- Hiring credits for other workers equal to that offered in Enterprise Zones;

- Sales tax credits similar to the credit available in Enterprise Zones;

- Lender's deduction similar to that available in Enterprise Zones;

- One-year depreciation benefit similar to that available in Enterprise Zones; and

- Net-Operating Loss (NOL) similar to that available in Enterprise Zones.

Manufacturing Enhancement Areas (MEAs)

The California Manufacturing Enhancement Areas were created in 1997 with SB 200 (Kelly) Chapter 609. The MEA legislation requires the Trade and Commerce Agency (currently Housing and Community Development) to designate up to two "Manufacturing Enhancement Areas" for certain impoverished communities.

The purpose of the MEA is to stimulate job creation in areas experiencing triple the average of the State's unemployment rate and located in a Border Environment Cooperation Commission Region. Currently there are two MEAs, Calexico and Brawley, both of which are located in Imperial County. These MEAs will expire in 2012.

Below is a partial listing of MEA benefits:

- Streamlined local regulatory controls;

- Reduced local permitting fees; and

- Tax credits for hiring qualified employees, eligible to earn up to $29,234 in tax credits or more.

Targeted Tax Area (TTA)

The California Targeted Tax Area (TTA) program came into existence in 1997 with AB 1217 (Bustamante) Chapter 602. The TTA legislation requires the Trade and Commerce Agency (currently the Department of Housing and Community Development) to designate at least one "Targeted Tax Area" that gives certain businesses various tax incentives. The only current State TTA is located in Tulare and it is designated until 2013.

Below is a partial listing of State TTA benefits:

- Tax credits for sales and use taxes paid on certain machinery, machinery parts, and equipment;

- Tax credits for hiring qualified employees;
- Fifteen year Net Operating Loss (NOL) carry-forward; and
- Accelerated expensing deduction.

Appendix F

G-TEDA Incentives Offered in Other State: Level 1 Overview

The chart below provides a comparison of the different incentives offered through state G-TEDA programs. Starting with the column on the far left, the chart identifies each state and then provides a separate column for different program categories. As you will note, many states require businesses to pre-qualify and/or register with a government entity before receiving state benefits which likely has the effect of providing the state with concise information over which businesses are availing themselves of incentives. Many states also limit their incentives to only certain types of businesses or industry sectors, while others offer a broader array of incentives including property tax and building construction incentives.

Because each state has its own tax structure, a chart is limited in its ability to represent the full impact of an individual incentive. As an example, a high property tax state may offer property tax relief, while a state wanting to encourage manufacturing may offer a robust sales tax rebate.   In all the available research, however, there does not appear to be a single state that offers any meaningful regulatory streamlining incentive. Perhaps this is an area where California can differentiate itself.

The information for the charts was obtained through the review of a report presented by Dr. Charles Swenson at the August 18, 2009 legislative hearing held by the Assembly Committee on Jobs, Economic Development, and the Economy. Dr. Swenson is professor and Leventhal Research Fellow at the University of Southern California.

- DRAFT –
Comparison of Geographically-Targeted Economic Development Areas Across the United States

	Requires Businesses Pre-Qualify before receiving benefits	Eligibility based on Industry-Specific/ or type of Business	Hiring Credit	Sales and Use Tax Credit or Exemption	Property Tax	Income Tax Credit or Exemption on Certain Level of New Financial Investment	Building Construction or Restoration Incentives	Training	Employee-Related Incentives	Other Incentives
Alabama	X	X	X	--	--	X	X	--	--	--
Arkansas	X	X	X	X	--	--	--	--	--	--
Arizona	X	X	X		X	--	--	--	--	--
California	X	--	X	X		X	--		X	Businesses in a G-TEDA can

										also receive local business incentives.
Colorado	X	--	X	X		X	X	X	--	Businesses in a G-TEDA can also receive an enhanced R&D Credit and credit for donating to the administration of the G-TEDA.
Connecticut	X	X	--	--	X	X	X	--	--	CN also has a Targeted Investment Area with a separate set of incentives. G-TEDA benefits are also offered to biotech firms located near a G-TEDA or University
Delaware	X	X	X	--	--	X	X	--	--	The G-TEDA program provides enhanced incentives based on the core incentives in the state's Targeted Industry Program.
Florida	--	--	X	X	X	--	X	--	--	---
Georgia	--	X	X	--	--	X	--	--	--	--
Hawaii	--	X	X	X	--	X	X	--	--	Businesses in a G-TEDA can also receive local business incentives.
Illinois	--	--	X	X	X	X	--	--	--	No state taxes on dividends from corporations that do all their business in a G-TEDA. Businesses in a G-TEDA can also receive a utility tax exemption.
Indiana	--	--	X	--	--	X	--	--	--	--
Iowa	X	--	--	X	X	X	--	X	--	Businesses in a G-TEDA receive double the value of the state's R&D Credit.
Kentucky	X	X	X	--	--	X	X	--	--	--
Louisiana	--	--	X	X	--	X	--	--	--	--
Maine	X	X	--	X	X	X	--	--	--	Businesses in a G-TEDA can also receive insurance premium credits.
Maryland	--	--	X	--	X	X	--	--	--	--
Massachus-etts	X	--	--	--	x	X	--	--	--	Businesses in a G-TEDA can also receive local tax incentives

										and a 5 to 20 year state tax exemption.
Michigan	--	--	--	--	X	X	--	--	--	Businesses in a G-TEDA can also receive a utility tax exemption and local tax exemptions.
Minnesota	--	--	X	X	X	X	--	--	--	Businesses in a G-TEDA can also receive income tax credit against rental income, capital gains, sale of business and business income.
Mississippi	--	X	X	--	--	X	--	--	--	--
Missouri	X	X	X	--	--	X	--	--	--	--
New Hampshire	X	--	X	--	--	X	X	--	--	--
New Jersey	--	--	X	X	--	X	--	--	--	Qualified retailers in a G-TEDA may charge 50% of state sales tax on "in person" purchases.
New York	--	--	X	X	X	X	--	--	--	Businesses in a G-TEDA can also receive a utility rate reduction.
North Carolina	--	X	X	--	--	X	X	--	--	--
North Dakota	--	--	--	--	X	X	X	--	--	--
Ohio	X	--	X	--	X	X	X	X	--	Businesses in a G-TEDA can also receive a $300 credit or actual reimbursement for daycare services provided to new employees.
Oklahoma	--	X	X	--	X	X	X	--	--	--
Oregon	X	X	X	--	X	X	--	--	--	Businesses in a G-TEDA can also receive an enhanced pollution control credit and credit for taxes paid to tribal governments.
Pennsylvania	--	X	X	--	--	X	--	--	--	--
Rhode Island	X	X	X	--	--	--	--	--	--	--

South Carolina	X	X	X	--	--	--	--	--	--	--
Tennessee	Has no G-TEDA program specifically, but does allow for an enhanced hiring credit for businesses located in distressed areas.									
Texas	X	X	X	X	--	X	--	--	--	Businesses in a G-TEDA can also receive other incentives offered by local governments.
Utah	--	X	X	--	--	X	X	--	--	Business in a G-TEDA can also receive a credit for funding a community investment project.
Virginia	--	X	--	--	--	--	X	--	--	Businesses in a G-TEDA may receive grants of up to $800 per employee.
Washington	X	--	X	X	--	--	--	--	--	--
Wisconsin	X	--	X	--	--	--	--	--	X	--
Contents were drawn from an August 18, 2009 presentation and report submitted to the JEDE Committee by Charles Swenson, PhD, CPA, Professor and Leventhal Research Fellow, University of Southern California										

Appendix G

G-TEDA Incentives Offered in Other State: Level 2 Overview

The chart below builds upon the information in the preceding chart by "drilling down" to look more closely at how different states implement their hiring credit incentives. As the chart will show, there is a wide array of possibilities for calculating the credit, which has the effect of making it difficult to have a direct comparison. What is clear, however, is that states have uniquely designed their programs to meet a number of programmatic objectives. As an example, some states have targeted their program to encourage the hiring of unemployed or disadvantaged individuals, while others have focused on job creation. Some states have set basic eligibility requirements for accessing hiring credits and others have not. It could be useful for policy makers to consider whether California's hiring credit fully advances the state's economic and workforce development priorities.

The information for the charts was obtained through the review of a report presented by Dr. Charles Swenson at the August 18, 2009 legislative hearing held by the Assembly Committee on Jobs, Economic Development, and the Economy. Dr. Swenson is professor and Leventhal Research Fellow at the University of Southern California

– DRAFT –

Comparison of Hiring Credit Provisions Among Geographically-Targeted Economic Development Areas Across the United States

	Est. Max Value per employee*	Eligibility based on Industry-Specific/ or type of Business	Years each workers can be claimed	Basis for Award	Calculation of Award	Requires Businesses Pre-Qualify before receiving benefits	Other Conditions of Provisions Related to the Hiring Credit
Alabama	$2,500	Yes	5 years	Increase in overall number of employees	80% in first year; 60% in second year; 40% in third; and 20% in fourth and fifth years	Yes	At least 30% of new permanent employees were formally employed for at least 90 days prior to employment with the tax-payer. The business must retain the employee for at least nine months. The employers may not have closed or reduced employment elsewhere in Alabama in order to expand in the zone.
Arkansas	4% of increased payroll	Yes	5 years	Increase in overall number of	Varies from 1% of increased payroll for new employees of over	Yes	Eligibility of credit is based on the size and geographic location of the business. The value of the credit varies from 1% of increased payroll for new employees over $125,000 to

				employees	$125,000 to 4% of payroll for new employees of over $50,000		4% of payroll for new employees over $50,000.
Arizona	$3,000	Yes	3 years	Increase in overall number of employees	¼ of wages in first year up to $500; 1/3 of wages in second year up to $1,000; ½ of wages in the third year up to 1,500	Yes	No retroactive vouchering. Any unused credits may be carried forward 5 years. Eligible workers must be paid above a certain amount; all full time employees must receive health care; and 30% of eligible employees must live in the same county as the businesses.
California	NA	No	5 years	New employees that fit within 13 specific categories	50% of wages paid to qualified employee in the first year; 40% in the second year; 30% in third year; 20% in fourth year; and 10% in fifth year. Wage level capped at 150% of minimum wage.	Yes	There are 13 categories of eligible employees; credits are limited to the value of wages up to 150% of minimum wage; credits may only be applied against the tax liability attributed to zone where credit is earned; and workers must remain employed for 120 days.
Colorado	$2,000	No	NA	New employees at new or expanded business facility	Straight amount per employee	Yes	A $2,000 credit is offered for businesses located in an enhanced G-TEDAs with a 7 year carry forward and a $500 credit for businesses located in a regular G-TEDA with a 5 year carry forward. Employers can get an extra $500 credit for new jobs in agriculture processing and a $200 credit for each new employee that has a qualifying health care plan provided by the business.
Connecticut	No hiring credit offered in G-TEDA Program						
Delaware	$1,300	Yes		Increase in overall number of employees	Earn $400 to $650 per new employee per $100,000 invested.	Yes	In order to be eligible for a credit the business is required to be in a targeted industry, to invest a minimum of $200,000 in a new, or to expand their facility and hire a minimum of five new employees. During first 10-years the credits cannot exceed 50% of company's tax liability.
Florida	NA	No	2 years	New employees	45% of wages	--	Credits can be claimed on either the businesses' corporate tax or sales tax. Businesses where at lest 20% of their workers are residents of Florida are eligible to receive a higher credit. Higher credits are also available for hiring welfare recipients. All workers must be full time and remain with the business at least 3 months. Qualified workers cannot have worked at the company for preceding 12 months. Credits cannot be awarded for employees that are owners, partners, or stockholders.

Georgia	$17,500	Yes	5 years	New employees above the threshold	$3,500 for tier 1 business that increases employment by 5; $2,500 for a tier 2 business that increases employment by 10; $1,250 for a tier 3 business that increases employment by at least 15; and $750 for a tier 4 business that increases employment by 25	Yes	An additional $500 credit can be earned for businesses that create or retain jobs based on the economic conditions where the business is located.
Hawaii	Businesses that meet certain requirements are entitled to a number of tax incentives which can be taken over 7 years. One of the requirements is that the business increase the overall number of employees. Businesses are required to complete initial application to demonstrate they meet the threshold criteria before receiving the full package of benefits.						
Illinois	$500	No	--	New employees	Straight credit	--	New workers must meet one of the two categories: dislocated worker or economically disadvantaged individual.
Indiana	$1,200	No	1 year	New employees	Lesser of 10% of increased salary expenses or $1,500 per number of new employees	--	Worker must live within the G-TEDA.
Iowa	No hiring credit offered in G-TEDA Program						
Kentucky	NA	Yes	1 year	New employees	4% loss wages from new employees in an approved project	yes	Approved projects must generate at least 15 new jobs and have a total capital investment of over $100,000. Businesses are required to compensate workers above specific salary levels and new employees must be provided with benefits equal to 15% of the county minimum hourly wage.
Louisiana	$2,500	--	1 year	Increase in overall number of employees	Straight credit	--	To be eligible a business must hire at least 35% of new workers from 1 of 4 targeted groups. Businesses must create a minimum number of jobs and employee workers who have established residence in LA. Businesses are not required to be located in a G-TEDA. Businesses in certain NACIS categories may receive double the value of the hiring credit.
Maine	No hiring credit offered in G-TEDA Program						
Maryland	$9,000	--	1 or 3 years	Increase in overall number of employees	For disadvantaged individual: $3,000 first year; $2,000 second year; a $1,000 third year.	--	The state offers a 1-year credit for creating new jobs and a 3 year credit for hiring an economically disadvantaged individual.

					For a person in a focus area: $4,500 in first year; $3,000 in second year; and $1,500 in third year. For other new hires: $1,000 for one-time credit and $1,500 if person is from focus area		
Massachusetts	No hiring credit offered in G-TEDA Program						
Michigan	No hiring credit offered in G-TEDA Program						
Minnesota	Prescribed amount each year (see formula)	--	Each year	Increase in overall number of employees	Credit is the 7% of the lesser of: The total MN payroll, minus the number of FTEs employed in the zone, or the adjusted G-TEDA payroll adjusted to exclude salaries in excess of $100,000	--	The state provides for a refundable credit; requires eligible employees be paid a minimum of $30,000, based a prescribed annual minimum wage
Mississippi	$15,000	Yes	5 years	Increase in overall number of employees at new or expanded facility	Based on the number of new jobs and the county the jobs are located: Tier 1 - $500 per year; Tier 2 - $1,000 per year; Tier 3 - $2,000 per year	--	Credits are not available to businesses that move from another area of the state.
Missouri	$400	Yes	NA	Increase in overall number of employees at new or expanded facility	The base credit is $400. An employer can receive an additional $400 if the employee lives in the G-TEDA, and an additional $400 if the employee receives an enhanced business wage.	Yes	Eligibility is based on new, expanded, or replaced facilities, having 2 new employees and making an investment of $100,000. The base credit is $400. An employer can receive an additional $400 if the employee lives in the G-TEDA and additional $400 if the employee receives an enhanced business wage.
New Hampshire	NA	Yes	5 years	Expansion of industrial- or commercial-base	Maximum of 0.75% of 5 year payroll	Yes	In order to be eligible for the credit, the business must first be designated by the community. Businesses must also demonstrate a certain level of financial investment as part of gaining a second specific development project approved by the community. The credits are only available to offset tax

							liability derived from the five consecutive tax year following project approval.
New jersey	$1,500	No	1 year	New Employees	Straight Credit	No	The state provides for a $1,500 credit for each new employee that resides in the G-TEDA, that was unemployed, or that was on public assistance immediately preceding current employment. Alternatively, a one-time credit of $500 is offered for each new full time employee that does meet the criteria above.
New York	$15,000	No	5 years	Newly Created Jobs	Straight Credit	No	The state provides a $3,000 credit per year for targeted groups and a $1,500 for other employees.
North Carolina	$15,500	No	Each Year	Increase in overall number of employees	Credit amount is determined by location of job. Tier 1 area $12,500; Tier 2 area $5,000; Tier 3 area $750	No	If the job is in certain targeted areas the credit can be increased by $1,000 per job. If the new employee meets certain demographic criteria the credit is increased by $2,000. Credits can be carried forward 5 years; however, credits may not be claimed in any year that the business has received notice of an overdue tax debt. In order for a business to be eligible for the credit, the average wage of full time workers must meet certain specified levels; business must offer health insurance to all full time employees and pay 50% of cost for every year in which a credit is claimed. Further, the business may not have received any significant environmental violations within the past five years; or any "willful" or "failure to abate" serious OSHA violations in the past three years.
North Dakota	No hiring credit offered in G-TEDA Program						
Ohio	NA	No	Each Year	New employees	Reduction in payroll numerator of all wages paid to individuals hired who meet one of five disadvantaged categories	Yes	--
Oklahoma	$1,000	Yes	1 Year	Increase in overall number of employees	$500 per employee per year and $1,000 per employee that lives within a G-TEDA	--	Businesses located in an G-TEDA are eligible to receive double the amount of the normal state Investment/New Job Tax Credit. Businesses may amend returns to claim job credits. Jobs must be full time in order to claim credits and wages must be in excess of $7,000 in the year they are earned and in the following year.
Oregon	NA	Yes	1 Year	Increase in overall number of	62.5% payroll and related taxes paid by the firm	Yes	The state uses the creation of a certain number of new jobs as a means for establishing eligibility for the payroll tax credit.

				employees			
Pennsylvania	NA	Yes	NA	Increase in overall number of employees	NA	--	Businesses must remain compliant with applicable state and local tax laws and building codes in order to claim credits.
Rhode Island	$5,000	No	1 Year	Increase in overall number of employees	Credit based on 50% of annual wages paid to new employees with a maximum of $2,500 per employees and 75% for workers who reside within a G-TEDA for a maximum of $5,000	Yes	The businesses employment base must be increased by 5% with full time RI residents for the business to be eligible for credits. Credits may be carried forward for up to 3 years.
South Carolina	$8,000	Yes	5 Years	Jobs at new or expanded facilities	Credits range from $1,500 for a developed county to $8,000 for jobs in a distressed county.	Yes	Counties are ranked according to their economic development conditions with less developed counties receiving higher tax benefits. Credits are also scaled by size of business.
Tennessee	$4,500	Yes	1 Year	Net new employee	$2,000 net new jobs; $4,500 for businesses located in a distressed county or a federal empowerment zone	--	The state has no G-TEDA program specifically, but does allow for an enhanced hiring credit for businesses located in distressed areas. Businesses must create at least 25 new jobs and make a required capital investment of at least $500,000.
Texas	NA	Yes	1Year	New employee	Based on 5% of wages paid to new employees	Yes	Businesses must be certified by the state and have at least 25% of the businesses new employees be economically disadvantaged if the business is located in a G-TEDA or at least 35% of the employees are economically disadvantaged if the business is located outside a G-TEDA. The total amount of credits may not exceed 50% of taxes due to the state. Jobs must also be permanent, full time jobs, pay at least 110% of the county average weekly wage, and be covered by a group health benefit plan for which the business pays 80% of the premium. Jobs may not be transferred from another area of the state.
Utah	$1,250	Yes	1 Year	Increase in overall number of employees	$750 credit, plus $500 for higher wage jobs	No	Corporations are eligible for a $750 credit for each new full-time position that is filled for at least 6 months. An additional $500 credit is allowed for each position that pays at least 125% of the county average wage per respective industry. A business can only claim a maximum of 30 new employees per year and at least 51% of the employees must be from the county where the G-TEDA is located.

Virginia	$4,000	Yes	5 Years	Increase in overall number of employees	Grants of $800 per year for higher wage jobs and $500 per year for lower wage jobs	No	Businesses must create at least 4 new full-time jobs for a maximum of 350 eligible jobs per year. Jobs must pay over 200% of federal minimum wage and provide health benefits, can receive $800 rather than $500 per year.
Washington	$4,000	Yes	1 Year	Increase in overall number of employees	$4,000 or $2,000 depending on wage levels and $1,000 for certain employment	Yes	Eligible businesses must increase employment by 15% over previous year and new jobs must be maintained for at least 12 consecutive months.
Wisconsin	NA	No	1 Year	Increase in payroll and workers	Determine the increase in G-TEDA payroll compared on the base year payroll. Then determine the increase in the number of people employed as compared to the base year. The increase is multiplied by $30,000. There is a 7% credit on the lesser of the employee-based increase or the actual payroll increase.	Yes	The tax credit is refundable. Businesses that relocate from other areas of the state are not eligible for credits. Businesses must (a) offer wages and benefits of similar value at those offered outside the G-TEDA, (b) be a business that increases the number of jobs by 10%, or (c) be a business that makes a capital investment in property that is valued at least 10% of the businesses overall gross revenues. In addition to the credit described in column 6, there are additional credits for businesses with 100% of their payroll in the G-TEDA and for businesses that upgrade workers skills.
* These numbers are calculated using the estimated maximum value of the credit over the eligible term of the credit. For credits that are not based on net increases in employees, rather than new jobs created, the number may be underestimated. These numbers should be considered broad estimations.							
Contents were drawn from an August 18, 2009 presentation and report submitted to the JEDE Committee by Charles Swenson, PhD, CPA, Professor and Leventhal Research Fellow, University of Southern California							

Appendix H–

Agenda from August 18, 2009 Legislative Hearing

California Enterprise Zone Program:
A Review and Analysis

Tuesday, August 18, 2009, from 8:30 a.m. to Noon
California State Capitol, Room 126

AGENDA

This is the first in a series of hearings being held by the Assembly Committee on Jobs, Economic Development, and the Economy on the California Enterprise Zone Program and other geographically- targeted economic development area (G-TEDA) programs. Collectively, the G-TEDA programs represent one of the state's primary economic and workforce development initiatives.

In this hearing, presentations will provide an overview of the G-TEDA programs, review the implementation of the 2006 reforms, and address the effectiveness of the G-TEDA programs in bringing about positive change in California's economically disadvantaged communities.

I. Welcome, Introductions and Opening Statements

Chairman Pérez and Members of the Assembly Committee on Jobs, Economic Development, and the Economy will give opening statements and frame the key issues to be examined during the hearing.

II. *Overview of the California Enterprise Zone Program*

- ***Lynn Jacobs,*** *Director, Department of Housing and Community Development*
- ***Craig Johnson,*** *President, California Association of Enterprise Zones*
- ***Jean Ross,*** *Executive Director, California Budget Project*

The G-TEDA programs were established over two decades ago. Prior to the 2005-2006 joint hearings by the JEDE and Assembly Revenue and Taxation Committee and the enactment of AB 1550 (Chapter 718, Statutes of 2006), the program had limited oversight. During this panel, presenters have been asked to provide an overview of the programs and to give specific details on how the programs are administered, monitored, and evaluated. At the close of the panel, presenters will be asked to define the qualities of a successful economic and workforce program for underserved areas and recommend a realistic and cost-effective evaluation process for ensuring public moneys are well spent.

III. Business Activity within G-TEDAs

- ***Charles Swenson,*** *Professor**,** University of Southern California*
- ***Jed Kolko,*** *Associate Director**,** Public Policy Institute of California*
- ***Enita Elphick,*** *President, Unity Forest Products, located in Yuba City Enterprise Zone*
- ***Lenny Goldberg,*** *Director, California Tax Reform Association*
- ***Chris Micheli,*** *representing the Aerospace Industry*

Statute provides legislative intent that clearly states that the purpose of the enterprise zone program is to "stimulate business and industrial growth in depressed areas of the State." Presentations during this panel will discuss how the G-TEDA programs are used or could be better used to meet this statutory intent.

IV. Economic and Workforce Development in G-TEDA's

- ***Clifford Weiss,*** *Deputy Director for Economic Development, City of Los Angeles*
- ***Timothy Kelley,*** *President of Imperial Valley Economic Development Corporation and past Chair of local workforce investment board*
- ***Barry Broad,*** *Legislative Advocate**,** International Longshore and Warehouse Union*
- ***Sunaena Chhatry,*** *Senior Policy Associate, EARN*
- ***Shawn Guttersen****, Vice President, BLT Enterprises*

The G-TEDA programs operate within a larger economic and workforce development network. Presentations during this panel will present information on how these programs are used as part of the larger economic development strategy and what improvements could be made to provide stronger community development support.

V. Public Comment

Anyone interested in addressing the Committee may sign up to speak during the public comment period. A sign-up sheet is located at the back of the hearing room.

VI. Summation of Key Concepts and Closing Remarks *(5 minutes)*

Assembly Members *will highlight key issues and provide recommendations on further actions by the Assembly Committee on Jobs, Economic Development, and the Economy.*

Appendix I

Summary August 18, 2009 Legislative Hearing

This is the first in a series of hearings being held by the Assembly Committee on Jobs, Economic Development, and the Economy on the California Enterprise Zone Program and other geographically- targeted economic development area (G-TEDA) programs. Collectively, the G-TEDA programs represent one of the state's primary economic and workforce development initiatives.

In this hearing, presentations provided an overview of the G-TEDA programs, reviewed the implementation of the 2006 reforms, and addressed the effectiveness of the G-TEDA programs in bringing about positive change in California's economically disadvantaged communities.

The committee heard from three panels of witnesses including the Director of the California Department of Housing and Community Development, representatives from several enterprise zone organizations the Director of the California Budget Project, the Director of the California Tax Reform Association, representatives from labor organizations and business owners located in G-TEDAs.

After a review of the programs and specific details on how the programs were administered, monitored, and/or evaluated, the presenters began discussing how the G-TEDA programs can serve as a cornerstone and lifeline to California business during the state's current economic recession. While most presenters agreed that the G-TEDA programs could be improved, many also stated that there has not been enough time to allow for the 2006 reforms relating to oversight and accountability to show positive or negative outcomes.

Concern was also raised by several presenters that the G-TEDA program had failed to meet its statutory mandate and was basically a form of corporate welfare. Further, presenters noted that California's lack of a comprehensive economic development strategy should be a first priority, otherwise changes to the state's G-TEDA programs would not be fully realized.

The committee heard a healthy debate by two economists who presented on their studies of the G-TEDA programs. One of the studies was national in scope and found that in areas where enterprise zones were in effect there was a 2.2% decrease in unemployment, 5% decrease in poverty and a 2% increase in the wage and salary rates. The second study was California-based and addressed the question of whether enterprise zones create jobs. This second study found, conflicting results to the first study, that there was no meaningful difference in job creation inside or outside the zone. Also under discussion, was the different data used and how it affected the outcomes in both studies.

Over the course of the hearing, presenters also discussed the broad range of incentives and benefits offered to businesses in G-TEDAs. Examples of incentives discussed included credits to make it more attractive to loan funds to small businesses, priority training for unemployed workers residing in zones, and hiring credits to encourage businesses to hired certain disadvantaged individuals. For example, the representative from the City of Los Angeles testified on their program to offer a 35% electric rate reduction and provide a waiver for permit fees for businesses located in a G-TEDA. According to other local government practioners, many G-TEDAs also have active marketing programs to promote businesses in the zone, work with the local one-stop job placement offices and provide loans to small businesses.

The hearing concluded with a discussion on several examples of new job creation and expansion programs. More than once, the statement was made that businesses actively seek out zone designations in which to locate, hoping to avail themselves of all of the benefits offered to help them become more competitive in the national and international market place.

Presenters made a number of proposals for improving the programs. The list below contains a few highlights. For a full list, refer to *Appendix I* of the enterprise zone white paper.

- Eliminate the apportionment formula under the hiring credit;
- Expand the net interest deduction;
- Incentivize real estate development;
- Delete cap on qualifying equipment purchases.
- Eliminate the targeted tax area;
- Remove the ability to retroactively voucher employees in the hiring credit
- Narrow the designation criteria to only allow those areas with the highest unemployment to qualify for zone designation.

The committee produced a report which provides extensive detail for the hearing's subject matter. This report can be found on the State Assembly's website at www.assembly.ca.gov.

Appendix J

Summary List of Reform Issues

This appendix includes a summary of recommendations. The recommendations are organized under five key policy areas relating to the Committee's initial assessment of the program.

Inclusion on this list does not connote either support or opposition from the Members of Legislature. The list is being compiled to assist the Committee in providing as transparent a policy making process as reasonably possible.

The list will be updated after each hearing. Copies of the list are available through the JEDE Office at 916-319-2090 and on the JEDE website at www.assembly.ca.gov .

	Proposed Title	Proposed Provision	Source
1. Program Purpose: In the statutory intent of the program consistent with actual structure and incentives of the program? What should be the intent of the /G-TEDA programs? What is the purpose of the programs in relation to California's overall economic development policy?			
1.1	Connection to Statewide Policy	The enterprise zone program should be a prominent part of California's overall economic and workforce development plans including California's Strategic Plan for federal Workforce Investment Act funds and the state Economic Development Strategy.	JEDE Committee
1.2	Connection to Local Policy	Require G-TEDAs to biennially demonstrate how their program fits within the broader local economic and workforce development plan.	JEDE Committee
1.3	Job Creation	The purpose of the G-TEDA programs should be more directly focused on job creation.	Testimony before JEDE 9/18/09
1.4	Job Retention	The purpose of the G-TEDA programs should be to retain jobs in lower-income communities.	Testimony before JEDE 9/18/09
1.5	Economic Competitiveness	The purpose of the G-TEDA programs should be to help lower-income communities attract businesses and be competitive with other states and countries.	Testimony before JEDE 9/18/09

	Proposed Title	Proposed Provision	Source
1.6	Anti-poverty Program	The purpose of the G-TEDA programs should be to address poverty through local business development.	Testimony before JEDE 9/18/09
1.7	At-Risk Workers	The purpose of the G-TEDA programs should be to help those workers who are most in need.	Testimony before JEDE 9/18/09
2. <u>Program Structure</u>: How long should individual G-TEDAs be designated? Should the overall G-TEDA program have a sunset? How can G-TEDAs be more closely linked to jobs and business growth in the community? What communities should be targeted for G-TEDA benefits? Do G-TEDAs need more technical assistance? What should be the priorities for awarding designations?			
2.1	Reduce Term of EZs	Limit the term of EZs to something less than 15 years.	2005/2006 Assembly Hearings and Meetings
2.2	Sunset G-TEDA Program	Sunset the authority to authorize new G-TEDAs.	Labor Community
2.3	Reduce number of Zones	Reduce the overall number of zones.	Testimony before JEDE 9/18/09
2.4	Reduce the Size of Zones	Set a limit on the size of an individual zone. Current zones are too big so the limit should be something less than the current size of zones.	Testimony before JEDE 9/18/09
2.5	Remove Successful Areas from Zones	Establish a process for removing areas from a G-TEDA that have demonstrated certain levels of success. Areas that are still struggling would remain in the program for the full term.	Testimony before JEDE 9/18/09
2.6	Expand Zone Designation Criteria	Expand the number of ways a geographic area can qualify for enterprise zone designation by (1) allowing areas with low countywide unemployment data as well as the existing requirement of statewide data, (2) allowing census tract level data for school lunch program participation as well as the existing countywide requirement, (3) establish new criteria for areas with a history of gang related activity and industry restructuring with negative long-term impacts.	SB 1008 and AB 1766 from 2005-06 Session
2.7	Limit Zone Designation Criteria	Eliminate the three separate sets of eligibility criteria for enterprise designation and, instead, establish a single set of eligibility criteria.	2005/2006 Assembly Hearings and Meetings
2.8	GIS Mapping	Require zones to provide key GIS information for the purpose of compiling a state GIS map of economic incentive areas.	2005/2006 Assembly Hearings and Meetings

	Proposed Title	Proposed Provision	Source
2.9	Local Governments Pay Portion of State Tax Credits	Require local governments to cover a certain portion of the costs of tax credits awarded to businesses within a zone.	Testimony before JEDE 9/18/09
2.10	Business Map of Zone	Require each G-TEDA, within one year of designation, to identify businesses within their jurisdiction as a foundation for implementing their economic strategy.	2005/2006 Assembly Hearings and Meetings
2.11	Increase Poverty Threshold for Targeted Employment Areas	Change the definition of a "targeted employment area" to require TEAs to be composed exclusively of census block groups having 61 percent or greater low- or moderate-income levels rather than 51 percent or greater.	SB 1008 and AB 1766 from 2005-06 Session
3.12	Eliminate Targeted Employment Areas	Eliminate Targeted Employment Areas.	AB 1139 current session
3.13	Refine Criteria for Designating Targeted Employment Area	Modify the designation criteria for targeted employment areas from being based on census tracts to census blocks.	Testimony before JEDE 9/18/09
2.14	Eliminate LAMBRA Back-test for Creating Jobs	Eliminate the back-test on LAMBRAs for creating jobs and instead require a comprehensive economic development strategy, tangibly related to the communities overall economic development strategy.	AB 597 from 2007-08 Session
3. <u>Incentives</u>: Do the incentives support the overall program goals? Are incentives supportive of emerging technologies and innovation? Is the program part of the communities' broader economic development strategy? Are the existing state incentives being administered properly? What state objective(s) does or should the hiring credit meet? Which prospective employees should be targeted? Are there incentives that should be added or taken away?			
3.1	Equalize the Value of the Hiring Credit	Replace the voucher apportionment schedule from a sliding scale from 50 to 10 percent over 5 years to a single flat rate for each year.	2005/2006 Assembly Hearings and Meetings
3.2	Pre-Certify Employees	Require zones to offer "pre-certification" programs for eligible employees.	2005/2006 Assembly Hearings and Meetings
3.3	Veterans Definition	Expand the veteran eligibility to include anyone who has been discharged or released under	SB 1008 and AB 1766

	Proposed Title	Proposed Provision	Source
		conditions other than dishonorable.	from 2005-06 Session
3.4	Employers Self Certify	Authorize employers to self-certify hiring credit vouchers.	2005/2006 Assembly Hearings and Meetings
3.5	Update Code References	Delete obsolete references to the federal GAIN and JTPA and replace with CalWORKS and Workforce Investment Act.	AB 1139 current session
3.8	Two-Tier Hiring Credit	Establish a two-tier hiring credit that provides a higher credit for new jobs that provide certain benefits and a lower credit for jobs without.	AB 1139 current session
3.9	Limit Look Back Period 1	Limit the look back period for vouchering an employee under the hiring credit.	AB 1139 current session
3.10	Limit Look Back Period 2	Reduce the value of a hiring credit that is claimed on an amended return.	Labor Community
3.11	Limit Look Back Period 3	Authorize small business to have an extended period of time to retro vouchers, but require mid- and large-size businesses to voucher within 6 months of the employee being hired.	Modified from Testimony before JEDE 9/18/09
3.12	Eliminate Tax Credit Apportionment Formula 1	Eliminate the apportionment formula in the hiring and sales tax credits. At a minimum, allow the credits to be used to offset income and tax liability in other EZs.	Business Community
3.13	Eliminate Tax Credit Apportionment Formula 2	Allow the hiring and sales tax credits earned by clean tech and renewable energy companies to be used to offset income and tax liability in other EZs.	AB 1159 current session
3.14	Stop Supporting In-Region Relocations	Prohibit businesses from earning hiring credits if they have relocated from within the same region, i.e. within 100 miles.	Research on other States
3.15	Cap on New Hire Credits	Place a numeric cap on the total number of new hire credits which can be earned in any one year and/over the life of the G-TEDA designation.	Labor Community
3.16	Transfer of Credits	Authorize small businesses to use credits against any state taxes owed, excluding property tax.	AB 2502 from the 2005/2006
3.17	Check on Employee Turn Over	Require employers to report to the G-TEDA when a vouchered employee leaves the employment of the business.	Labor Community
3.18	Increase Real Property Expensing	Increase the real property expense deduction from 40 to 60 percent of the cost of qualified property.	SB 1008 and AB 1766 from 2005-06 Session
3.19	Eliminate NOL	Eliminate the apportionment formula in the net operating loss (NOL) deduction. The formula	Business Community

	Proposed Title	Proposed Provision	Source
	Apportionment Formula	discriminates between similarly situated taxpayers and has no impact at all on those located solely within one EZ.	
3.20	Net Operating Loss	Extend the period of time the net operating loss for businesses may be claimed from 15 to 17 years.	SB 1008 and AB 1766 from 2005-06 Session
3.21	Expand Net Interest Deduction	Expand the net interest deduction (NID) to eliminate the "located solely within an EZ" language so that lenders can provide funds to multi-zone employers and employers in and out of EZs. Current law limits the businesses to only those located solely within an EZ to qualify a lender for the NID. This is a significant impediment to lenders and businesses.	Business Community
3.22	Increase Employee Tax Credit	Increase the amount of the one-time employee tax credit of $525 to $1,500 per employee. It has not been changed since first enacted. This is the only direct benefit to the employee. All other EZ benefits accrue to the business itself.	Business Community
3.23	Create New Real Property Purchase Credit	Create a tax credit for real property and building purchases.	Business Community
3.24	Expand Sales and Use Tax credit	Change the sales/use tax credit to a sales/use tax exemption for equipment used in EZs. The equipment includes manufacturing, assembly, pollution-control, and energy conservation equipment. This change would help start-up businesses in particular by no longer forcing them to overpay for much needed equipment and then waiting 15 months for the income tax offset.	Business Community
3.25	Equalize cap on equipment purchase	Equalize the amount of the cap on qualifying equipment purchases for the sales tax credit to $20 million regardless of the taxpayer's entity. Under current law, entities taxed under the personal income tax law can only qualify the first $1 million in purchases, while corporations can qualify the first $20 million in equipment purchases. This favors one type of entity structure over others.	Business Community
3.26	Tax Incentive Marketing Program	Create a statewide marketing program for all G-TEDAs.	2005/2006 Assembly Hearings and Meetings
3.27	Expand Incentives to Better Support Retention	Review the existing incentives and assess whether they can reasonably be used to help retain businesses.	Testimony before JEDE 9/18/09
3.28	Living Wage Eligibility Requirement	Limit tax incentives to only those businesses that pay "living wages."	Testimony before JEDE 9/18/09
3.29	Prohibit Contingency Fee Arrangements	Prohibit businesses from paying tax consultants on a contingent basis for G-TEDA credits.	Labor Community

	Proposed Title	Proposed Provision	Source
4. <u>Oversight</u>: Are G-TEDAs properly accountable to their local government(s) and the state? Are the activities of G-TEDAs sufficiently monitored to ensure the public is receiving its return on investment? Does the current dedesignation process ensure accountability?			
4.1	Recalibrate LAMBRA Designation Terms	Start the clock on the LAMBRA designation, on the first day that the community has control over the closed military base.	2005/2006 Assembly Hearings and Meetings
4.2	Combine related GT-EDA Provisions	Combine related authorities, responsibilities, and tax provisions to improve oversight and monitoring.	AB 1395 from the 2005/2006 Session
4.3	Lender Tax Credit	Require lenders verify and document that proceeds from loans made to taxpayers in the enterprise zone are spent within the zone.	SB 1008 and AB 1766 from 2005-06 Session
4.4	EZ Bank Credits	Limit EZ bank tax credits to only those loans that meet federal CRA requirements.	2005/2006 Assembly Hearings and Meetings
4.5	Business Reporting	Require businesses that use EZ incentives to report annually to zones.	AB 1139 current session
4.6	No Form No Credit	Prohibit a business from claiming a G-TEDA credit that does not also file a completed FTB tax form. Technical, nonsubstantive omissions do not trigger the disqualification.	JEDE Committee
5. <u>Evaluation</u>: Do the G-TEDA programs meet the purposes of the program? Are the G-TEDA programs the best use of state resources? Do G-TEDAs provide valuable business assistance? Are communities with G-TEDAs better off than communities without? How worker friendly are G-TEDAs? How business friendly are G-TEDAs? Is there sufficient knowledge about where G-TEDA incentives are being used and the public and private benefits achieved?			
5.1	Tax Expenditure Report	Require all tax expenditures attributed to G-TEDAs to be annually posted on the FTB website, including the type of credit, size of business, and estimated private investment leveraged.	2005/2006 Assembly Hearings and Meetings
5.2	10-Year Legislative Review	Require the Legislature to comprehensively review the G-TEDA programs at least every 10 years. Condition the continuation of designating new zones on an affirmative vote of the Legislature. This would mean that existing zones would continue until their initial term was completed. Alternatively, the zones could be dedesignated but businesses that had previously applied for incentives could continue for the full term of the initial designation, but other businesses would be prohibited in accessing the incentives after dedesignation.	Modification of Testimony before JEDE 9/18/09

	Proposed Title	Proposed Provision	Source
5.3	Expand Zone Reporting	Require G-TEDAs to report key local economic statistics to allow for cost-effective oversight of the program's impact on the community. This information would be reported every two years as part the G-TEDAs' existing report to HCD.	Modification of Testimony before JEDE 9/18/09

Bibliography

California Association of Enterprise Zones, *Cost-Benefit Analysis of California's Enterprise Zone Program*, Applied Development Economics, Berkeley, California, June 5, 2005.

California Department of Community Housing and Development, *Enterprise Zone Regulations, Subchapter 21, Enterprise Zone Program,* October 4, 2005, available at www.hcd.ca.gov/fa/cdbg/ez/Text_Voucher_Amendments.pdf

California Department of Community Housing and Development, *Initial Statement of Reasons*, *Enterprise Zones*, October 21, 2005, available at www.hcd.ca.gov/fa/cdbg/ez/ISOR_5.pdf

California Department of Community Housing and Development, *Notice of Proposed Rulemaking for the Adoption of the Enterprise Zone Administration and Issuance of Vouchers Regulations*, n.d., available at http://www.hcd.ca.gov/fa/cdbg/ez/Notice.pdf

Don Hirasuna and Joel Michael, *Enterprise Zones: A Review of the Economic Theory and Empirical Evidence*, Minnesota House of Representatives, January 2005

California Trade and Commerce Agency, *The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined*, November 1, 1995.

O'Keefe, Suzanne and Roger Dunstan, *Evaluation of California's Enterprise Zones,* California Research Bureau, Sacramento, California, August 2001.

Pulsipher, Ian, *Evaluating Enterprise Zones*, National Conference of State Legislatures, Denver, Colorado, May 9, 2005.

Nonprofit Management Solutions and Tax Technology Research, LLC, *"Report to the California Department of Housing and Community Development on Enterprise Zones",* August 18, 2009.

Ham, John C., Imrohoroglu, Ayse and Swensen, Charles, *Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Communities,* University of Southern California, November 2008, Revised March 2009.

Kolko, Jed and Neumark, David, *Do California's Enterprise Zones Create Jobs?* Public Policy Institute of California, June 2009. available at http://www.ppic.org/main/allpubs.asp

Jonathan Potter and Barry Moore, *UK Enterprise Zones and the Attraction of Inward Investment*, Urban Studies, August 6, 2009, available at http://usj.sagepub.com/cgi/content/abstract/37/8/1279

Bruce K. Mulock, *Empowerment Zone/Enterprise Communities Program: Overview of Rounds I, II, and III*, CRS Report for Congress, Updated October 22, 2002.